MARKET ACTS ON RIPPLES and EDDIES IN NEWS

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and BUSINESS ANALYST

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1956

Mid Year Dividend Forecast

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Machete-wielding laborer in the sugar field.
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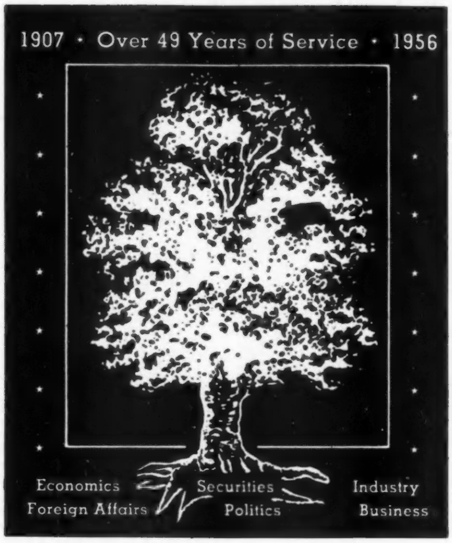
THE MAGAZINE OF WALL STREET

C. G. Wyckoff, *Editor-Publisher*



The Trend of Events

THE PRESIDENT DECIDES . . . President Eisenhower, recovering from his most recent illness, has reaffirmed his decision to seek a second term of office. When he recovered from a heart attack, suffered last fall, the President went to the people with a statement that he would be a candidate only if he were convinced that his health was sufficiently good to enable him to carry on the duties of that office.

Since no one, including political opponents, has ever questioned the honesty of this man, it must be concluded that the President feels up to the job. This is not the same thing as saying he is correct in that analysis. We know only too well that many a man who has had no history of illness has been suddenly stricken and others, who have known long sieges of illness, have made complete recovery.

With the President seeking re-election, we may be sure that the health issue will be prominent in this campaign. Reams of literature, lay and medical, will seek to establish that he is fit for another four years of office. A similar quantity will attempt to prove he is unfit. Of course, neither side will be able to make out an air-tight case. Although time must be the final arbiter, we must expect that there will be a good deal of silly talk on both sides of the issue, as the jockeying for political gain goes on.

With the President seeking re-election, we can expect that opposition guns will be trained on Vice-President Nixon. Mr. Eisenhower does not offer an especially good target. His support of Mr. Nixon also will dim, for all political purposes, that target. We may expect that the left-wingers, in particular, will continue their campaign against the Vice-President, whose militant opposition to these forces has earned their undying hatred.

ONLY STALIN HAD MORE POWER . . . The steel impasse offers a striking example of the great accumulation of power in the hands of union leaders today—a power that enables them to close our factories—and to shut down an industry without regard to its effect on related industries—our economy—and the public in general. These tactics do not represent freedom of action, but license, operative at a time when we need to work to maintain industry and our economy.

To the man in the street, it would seem that there would be little difficulty in arriving at an agreement without recourse to strike. Steelworkers averaged $2.47 an hour, a far better average than in such comparable industries as automotive and electrical machinery. They were offered a wage boost of 7.5 cents hourly (13 cents, benefits included) for each year of the life of the contract.

Nevertheless, we have had a steel strike. And the union will keep its members out until the leadership is able to get the kind of terms it wants. Surely this is not the kind of collective bargaining to which nearly all Americans have subscribed these many years.

Nor are the labor bosses wholly to blame for using to the hilt the enormous power they now have over the economy. The blame must be attached to a nation

We call the attention of the reader to our newly-devised Trend Forecaster, which will appear, beginning with this issue, as a regular feature of the Business Analyst. This new department presents a valuable market analysis of importance to investors and business men. To keep abreast of the forces that may shape tomorrow's markets, don't miss it!

Business, Financial *and* Investment Counsellors : : 1907–*"Over Forty-nine Years of Service"*–1956

that permits a few men, who do not think in terms of the country's welfare, to close down a basic industry and threatent paralysis of our entire society.

This Government, which has taken one step after another to stem the tide of industrial monopolies, might do well to interfere with labor monopoly, which is clearly evident in the AFL-CIO combine. Not even the wildest-eyed radical could find anything to approach the menace to our economy that is embodied in the vast powers of labor bosses.

The Government is out now with a boast that in the year ending June 30, it issued 42 anti-monopoly complaints, compared with 36 in the preceding year and 28 for the average year from 1944 through 1953.

Americans hold little brief for monopoly, whatever the source. But they might properly ask when this Congress and this Administration are going to come to grips with the long continued labor-boss monopoly that acts willfully in the knowledge that it alone has the strength to dictate settlements—that mean strangulation of companies, industries—and, importantly, autocratic domination over the workers, in a way that is completely alien to democratic practices. By way of contrast, it is interesting to note that the liberty-loving automobile workers in Britain refused to leave their well-paying jobs to answer a strike call by union leaders.

Something to think about, Americans!

THE AVERAGE AMERICAN... People seem to resent any attempt to class them as "average." Yet it is common to find reference to "the average American" or "the average man or woman." No less than others, we have had difficulty in establishing his (or her) identity.

The reader may have considerably more success now that it has been established that the average debt per debtor in this country is $800. All that remains is for the reader to decide whether, if he owes less, he is less than average and, if he owes more, he is better than the run-of-the-mill citizen.

COMPETITION FROM RAILROADS... There has been so much said on the subject of competition to the railroads from trucks that it is refreshing to learn of the numerous plans of the railroads and the carrier-equipment industry to improve the competitive position of our railroads. Handicapped by a tax and rate-making structure that stacks the cards heavily in favor of highway haulage, the railroads must rely heavily on research and development to provide the kind of services that will cut their costs and make them efficient rivals of the favored truckers.

Probably the most dramatic development in the efforts of the carriers and the equipment manufacturers to afford the railroads a chance to vie on better terms is piggyback, which entails hauling truck-trailers on flatcars. Piggyback service, of course, is not new, but many refinements of the basic idea are being introduced by the technically-minded folk who are determined to give the railroads a lift in the face of strong odds.

Latest of these is the adaption of "Lodapto," a freight car that is designed to make piggyback traffic possible through low-bridge areas. The new car, which is 10 inches lower than standard flatcars, will pull the cork out of existing tunnel bottlenecks, which until now have restricted expansion of piggyback hauling.

Lower-deck flatcars may seem like a small thing, but they loom larger when viewed against the background of an industry that is making steady progress through emphasis on electronic devices, automation and new technologies.

STOCKPILES AND POLITICS... No little economic activity of recent years has stemmed from Federal stockpiling of materials deemed essential to the national defense. The taxpayers of this country have a stake in this stockpile that now approaches $8 billion, consisting largely of minerals and metals.

While it is difficult for the layman to argue about the amount of fluorspar, asbestos and tantalum to be stored, as examples, the defense hoard has taken on the size (in value) of the Federal supply of farm commodities. This session of Congress has demonstrated that, defense considerations aside, there is considerable attachment to getting the Government to stockpile materials helpful to interests back home.

It may be recalled that during the Truman Administration the dairy interests of the Midwest got the Congress to hobble imports of foreign cheese by making certain restrictive clauses a part of the Defense Production Act. The business of using a national emergency to promote special interests is older than that, of course.

In the matter of stockpiling materials that would be needed in the event of war, the program has been going on since shortly after the close of World War II. Down the years, numerous members of Congress have regarded this program as a price-support program in the interests of their constituents.

New legislation, slated by this Congress, would put this nation all the way into the price-support business. The plan calls for continued buying of materials, even where stockpile goals already have been attained. As in the matter of stockpiling farm commodities, there is always the threat of spoilage, notably in such items as rubber. It would be interesting to learn how much this program already has cost the taxpayer in spoilage, storage and supervisory personnel.

STEEL FROM ABROAD . . . Back in the days of the Korean war, when steel was hard to come by, domestic fabricators scoured the Continent for that metal. Price was not a primary consideration and foreign producers, consequently, enjoyed a field day.

With the multi-million steel tonnage loss sustained in the American strike, which began on July 1, it is conceivable that foreign producers once more will find this market lucrative, although on nothing like the scale that prevailed a few years ago. Germany, which ranks second only to the United States among producers of steel in the Free World, now turns out more than 2 million tons of steel monthly. But for the fact that Germany, even with this high level, finds herself short of steel, there would be opened a considerable source of supply to our own metal-working industries, which must cut back or even halt operations for lack of steel.

As I See It!

By JOHN CORDELLI

TITO, NEHRU & NASSER

It will be interesting to see what comes out of the recent conference at Brioni between Tito of Yugoslavia, who heads the reform movement in Communism; President Nasser of Egypt, who seeks domination over all Arabs, and fuzzy-minded Prime Minister Nehru of India, whose pro-Communism prompted him on departing Moscow to say he "left part of his heart." He left his head long ago.

In a world-power situation that is delicately balanced, these men are permitted the luxury of creating a dangerous new imbalance while they demand that the United States finance their grandiose development programs—or submit to an increased tempo of criticism, abuse and tongue-lashing.

Actually, all that stands between them and Russian domination of their countries is the power of the United States. And they know it. But, unfortunately, they have come to look upon our benevolence and tolerance as a psychological weakness which they exploit to the hilt.

Tito, with his broad experience, is unquestionably the strongest man of the three and his ego must be at its zenith as a result of his successful defiance of the Kremlin masters. An indirect result of Tito's defiance (underwritten by the United States) has been revolts in Poland, East Germany and other satellite nations, as well as inside the Soviet Union. Tito, incidentally, had a first-hand opportunity to gauge the caliber of the new Russian leadership on his recent visit to that country, where he was wined and dined. He, better than Nehru or Nasser, knows how the land lays.

As the apostle of Communism tied to nationalism, it will be interesting to see what develops out of this meeting on Tito's home grounds. Nehru and Nasser are inclined toward liberalization of Communism to begin with and Tito may yet succeed in lining them up with him to stave off further crumbling of monolithic Communism, which has already begun in Europe.

Nehru's allegiance to the British Commonwealth of Nations is merely nominal—to the rest of the Western world it is nil. And he is ready to attack any of its leaders on the slightest provocation. On his visit to Bonn, as an example, he had the temerity to reject the basic elements of Chancellor Adenauer's international policy, and refused to recognize the Bonn government as the legitimate representative of all Germans, demonstrating clearly where he stands with regard to Russia, as he left the door open to eventual recognition of the East German puppet regime by India.

Nasser, young and having had his first taste of power, moved in fast company at Brioni. It must be said for him, however, that he has not been slow to learn the game of political blackmail, reflected in his playing off East against West in his bid for military and economic booty. It remains to be seen whether he will be equally adroit at halting the Bolshevik encroachment that threatens the backward peoples of the Middle East.

"Better Look Before You Leap"

The Providence Evening Bulletin

Americans, for good or ill, continue to give substantial economic aid to the countrymen, of Tito, Nehru and Nasser. We do so with no thought that their leaders ever will take a stand for the cause of world freedom from the Red Terror. But it would be less than human to hope that one day there will emerge new leaders in these countries—leaders who will give moral direction to the striving of their long-suffering people for freedom to work out their own destiny.

As for long-suffering Americans, who have poured out more than $50 billion in aid to foreign countries in the post-war decade, they will continue to be urged to support such programs. If they bridle at the suggestion of supporting the regimes of Belgrade, New Delhi and Cairo, it is no wonder. Indeed, the balkiness of our Congress, which would pare the largesse to many of these countries accurately reflects the mood of our people. The machinations of the men at Brioni explains that mood.

Market Acts on Ripples And Eddies in the News

The market is nearing either culmination of a trading-swing recovery or a test, with possible moderate betterment, of the April-May highs of the industrial and rail averages. The longer it lasts, the more will the steel strike distort production trends, leaving the real health of business in question. Adhere to a conservative, highly selective investment policy.

By A. T. MILLER

The stock market's selective upswing from the reaction lows of late May has now been extended through its sixth week; and it showed some increase in momentum over the past fortnight, with the daily industrial average up nearly 19 points net, which is equal to not a great deal less than half of the total recovery scored to date. The average has made up approximately 81% of its April 6-May 28 sell-off, which amounted to 52.24 points, or slightly more than 10%. On a daily average basis, trading volume last week was about 15% larger than in the preceding week, rising stock prices having stirred up some interest, as usual.

However, this "favorable indication" has little significance so far. At less than 2.3 million shares a day, trading activity remained subdued, as measured by the normal standards applying around the upper reaches of a major bull market. It is far under the levels reached as far back as early 1955. Probably it would take a more dynamically bullish performance than we can see basis for, and a cut in margin requirements, to bring "the public" trooping back into this market in any considerable degree, thereby increasing its ultimate vulnerability. Sources of concern now are dividend yield factors, price-earnings ratios of over-exploited "growth stocks," and longer-range business uncertainty, rather than general speculative tendencies as measured by share turnover, the margin position and the relative behavior of typical "cats and dogs".

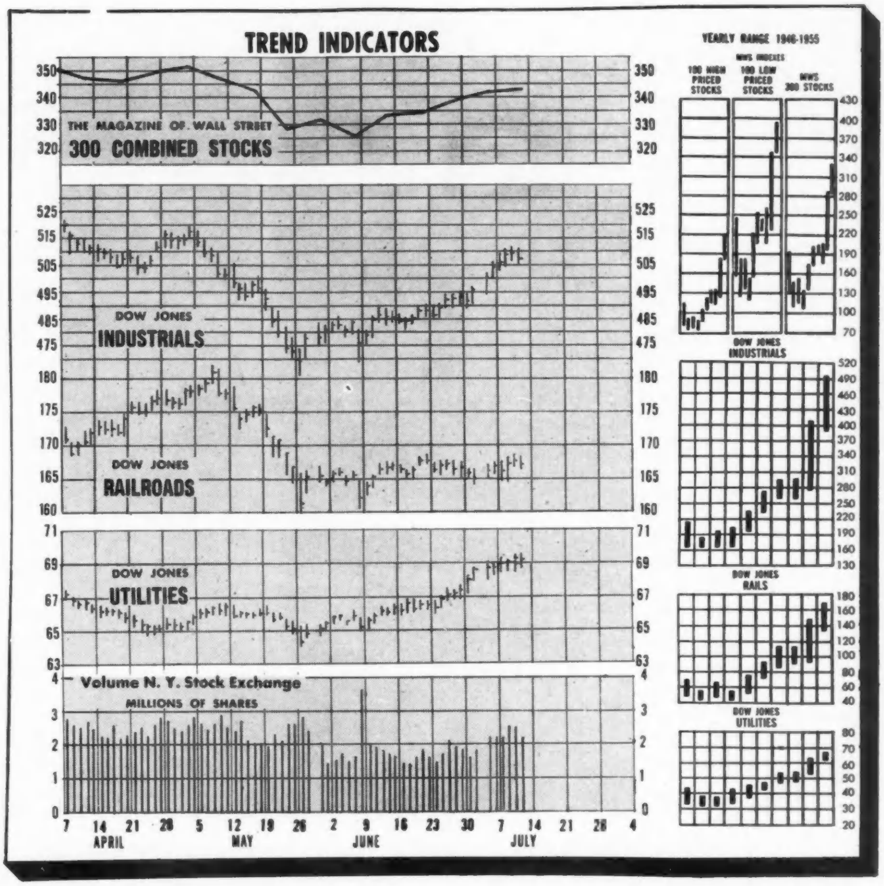
Rails Still Lag

The railroad list, while a little higher, is still sluggish, and with good reason. As noted here before, the steel strike means reduced freight revenue and earnings; and the steel settlement will mean higher costs on many things bought by railroads, besides setting "the pattern" which will make later rail wage boosts more expensive than they would otherwise be. The rail average has retraced only about a third of its May 9-May 28 fall of nearly 20 points. It has risen about 4% from its May low, compared with roughly 9% for industrials and nearly 8% for the utility average The latter has now attained another new bull-market high, extending the prior high (recorded last March) by a moderate but clear-cut margin; and bearing out the constructive policy we have consistently adhered to as regards this group. Relative to average dividend yields at past market extremes, utilities remain much less dear than do good-grade, popular industrials. Prospects for utility earnings and dividends are more assured than those of most industrials and nearly all rails – despite which, rails might be able to extend their so far unimpressive technical rally.

It is true that the several natural gas

stocks in the Dow utility average have facilitated its attainment of a new high; but a fair number of electric utilities are now meeting the best demand in a long time, including selected issues which have been recommended, at lower levels, elsewhere in THE MAGAZINE.

The market remains highly mixed. Among issues traded last week, advances exceeded declines by little more than 2-to-1, a slightly better ratio than in the week ended July 6. However, new highs recorded by individual stocks — numbering roughly a 10% minority of the issues traded — ran ahead of new lows by about 2½-to-1 ratio, whereas in the previous week, despite a good gain by our index of 300 stocks (which was extended last week), about as many stocks sagged to new lows as reached new highs.

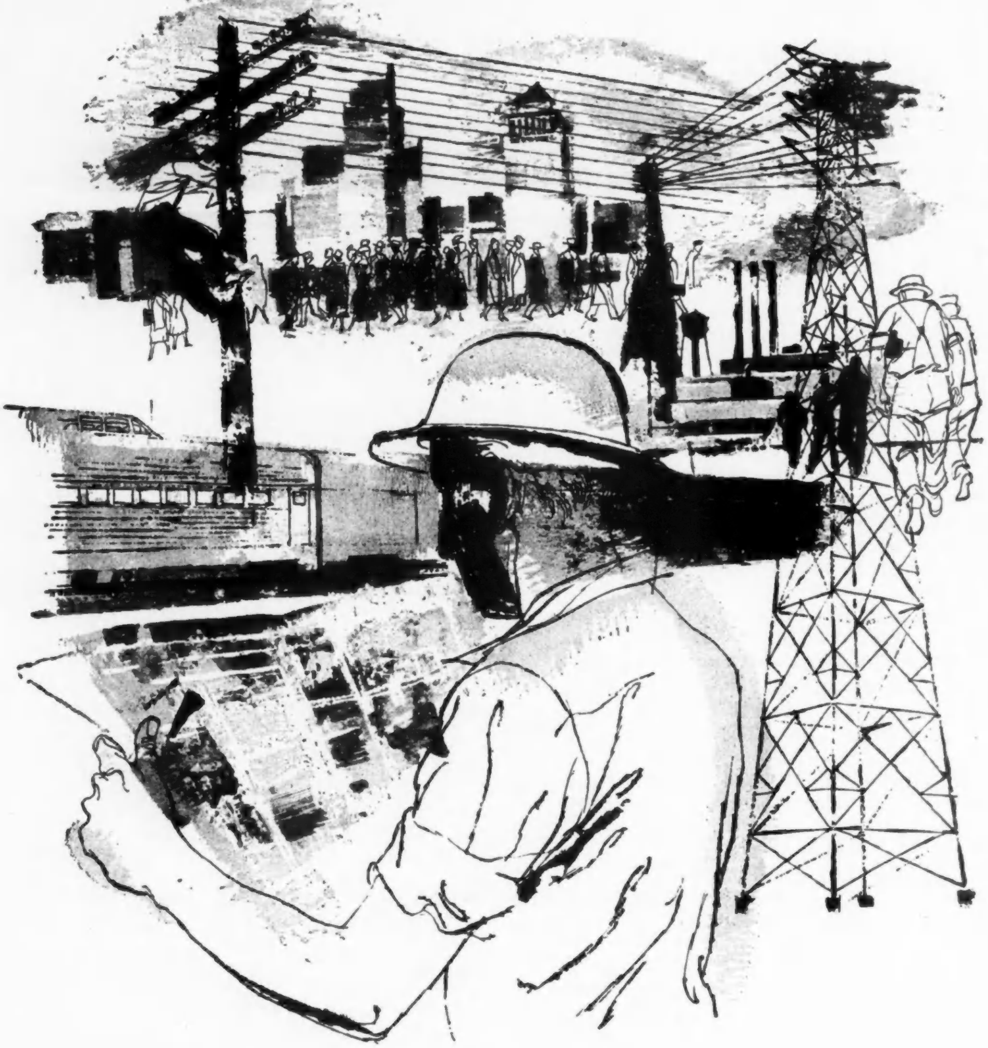


Over-all potentials, as measured by movement of the daily industrial and rail averages — and by performance of our broad weekly index — should be viewed with a mixture of caution and healthy skepticism. Whether this can amount to anything more than a summer rally in the market remains to be proven, even though confidence has become somewhat stronger in recent weeks. The industrial average is back to within roughly 2% of its April all-time high. The general picture for earnings and dividends is only mildly favorable, contrasting with sharp 1955 gains. This should argue against a significant betterment, if any, of the April high.

We suggest utilization of July strength — without counting on August potentials — to pare down speculative holdings, to get rid of your "mistakes", and to clinch some profits (enough to write down your investment costs largely) in stocks which have had huge advances and which are at levels of overvaluation on realistic appraisal. You need have no fear that the market will run away from you. It has become increasingly a saw-tooth affair over the last 12 months or so, marked by relatively modest extensions of prior highs and by sharper and more frequent sell-offs — the last of which surely has not been seen. If you think this is still a dynamic bull market, you might note that at present the industrial average is up less than 10% from a year ago, rails about 5%, following over six weeks of recovery; and that it now takes only an intermediate reaction of around normal technical scope to put both back to, or below, their year-ago levels.

We may now have a distorted business situation, especially as regards the trend and level of industrial production, for some time, hinging on the duration of the steel strike. It will speed correction of inventory excess in so-called light steels, while aggravating shortages of various heavy steels. It will, of course, substract from third-quarter business activity. If it does so sharply for some weeks, the settlement will add sharply to later business activity —perhaps in a portion of the present quarter, perhaps in much of the fourth quarter. But there is no net gain in making up strike-lost production.

The questions will be: (1) Protracted inflationary boom, giving a significant general lift to corporate earnings and dividends? Or (2) more rotating adjustments, with restricted over-all change in business volume? Or (3) some over-all recession, perhaps equaling, perhaps exceeding, the downturns of 1948-1949 and 1953-1954? We think the chances are against an extended inflationary boom so long as the Treasury is operating with a sizable cash surplus; and the Federal Reserve, which has merely let up slightly on the credit brakes while watching the situation closely, is prepared to press down harder again when, as and if necessary. If wage-price inflation means more profit in some lines, it will mean less in others because of inability to pass higher costs fully along. Rising costs and keen competition mean narrowed operating margins in many lines. Meanwhile, the June business reports have less than usual significance. Our discriminating, conservative policy is unchanged. This market has been acting on ripples and eddies in the news. —Monday, July 16.



The Consumer—

Key To The Outlook For The Last Half of 1956

By HOWARD NICHOLSON

At mid-1956 the trends in individual sectors of the American business system are more mixed than at any time since early 1952.

While capital-goods markets are strong, markets for consumer-durables are weak. While residential building is slack, industrial construction is booming. While retail inventories (notably of durable goods) are heavy, and raw materials particularly are in abundant supply in manufacturing generally, a number of industries still are accumulating inventories. While broad price indexes have not indicated any important change in the general level of wholesale and retail prices, within the averages there have been pronounced changes in direction.

Crucial Factors Cited

In this kind of situation, the business outlook can be made to hang on any one of a number of possible eventualities, depending on the special techniques of individual forecasters. For example, large numbers of forecasters have referred to the uptrend in capital-goods spending as the dominant trend of business, and have argued that if it continues in

late 1956 other industries will doubtless prosper too. Others point to the rising volume of construction activity of industrial and public types as the principal theme running through the outlook for the next six months. Still others point ominously to the inventory overhang, and argue that the reversal of inventory policy will dominate the trend throughout the remainder of the year.

All of these versions have some merit, and something to contribute in the analysis of the business outlook for the critical months ahead. But appearances temporarily to the contrary, the fundamental element in the business outlook remains what it has been for most of the time since the end of the Korean war: Namely, the intractable, unpredictable consumer, and the course he will pursue in the light of his interpretation of his income, his assets, his standard of living and his debts.

Until fairly recently, the role of the consumer in forming the trend of business conditions was considered to be distinctly secondary. The consumer followed the trend; he spent a stable proportion of his income; his behavior dampened booms and recessions somewhat, but he had no positive control over the timing of the business cycle. Beginning in 1950, as information on the patterns of behavior pursued by the consumer sector widened and improved, respect for the creative role of personnel consumption increased at a gallop. And with good reason. In late 1950, under the impetus of fears about impending shortages and scarcities, consumers reduced their saving rate to zero, and cleared markets of goods overnight in an historic splurge of buying. When these fears cooled off, consumer sat on their hands, and the effect on business was so powerful that a gigantic new rearming effort by Government was conducted in 1951 and early 1952 without any of the classical symptoms of inflation that usually accompany rearmament.

Second Half Prospects, By Industries

Capital Goods Industries:	Volume very high with varying profit position for the individual companies.
Construction and Building Materials:	Activity and earnings very satisfactory but unit profit margins stable for some—declining somewhat for others.
Autos:	Third quarter automotive companies' earnings sharply lower. Possible rise in fourth quarter depending upon acceptance of advance 1957 models.
Consumer Durables:	Continuing intense competition plus higher selling and manufacturing costs will bring further declines for home-appliance and radio-television producers. Position of appliance-makers fully covered in story "Recipe for Appliance Makers" on page 518.
Steel:	Fourth quarter productive activity depends on length of strike and resumption of operations. Earnings badly hurt by strike in third quarter.
Chemicals:	Volume well maintained in basic chemicals—less satisfactory in agricultural chemicals.
Paper:	Demand exceeds supply. Labor factor minor —with high level earnings likely to continue.
Aircrafts, Guided Missiles, etc.:	Accelerated activity for companies benefiting from defense programs. See story "Where Defense Money Will Be Spent," pages 515, 516 and 517.
Food, Liquor Beverages:	Fully covered elsewhere in this issue.

The Consumer After Korea

Following the end of the Korean war, the consumer made the 1953 boom and then flattened out the 1954 recession by a demonstration of stable and sustained buying power. As the 1954 recession terminated, and consumers' confidence was enhanced by favorable developments in other parts of the business system, personal consumption rose rapidly and majestically to the highest level on record.

More than any other single element in the economic trend, the confident and vigorous purchasing of consumers (stimulated by price discounts, easy credit and massive merchandising efforts) made 1955 the tremendous boom year that it was. But at its end, as analysts began again to think in terms of a new, permanent prosperity, the consumer suddenly retrenched. By so doing, he precipitated an uneasy and hesitant pause in total business conditions, at the very moment when business spending for plant and equipment, which used to be considered the fundamental thread of the business trend, was booming to its own all-time high.

This record of the importance of consumer spending is not a series of capricious shifts in mass attitudes. The behavior of consumers is not, of course, unrelated to prevailing trends outside the consumer sector; in fact, it develops fully out of them. To forecast the business trend over the next six months, it is accordingly necessary to set up a framework of probable trends outside the consumer sector, and then to develop the probable reactions of consumers —their spending-saving pattern, and the distribution of their spending over the broad range of goods and services that constitute the American standard of living.

What is particularly striking about this approach to the business outlook is that for the last half of 1956 it yields a very conservative and cautious forecast, even though many important sectors of business not closely related to the consumer seem to be in a very strong position.

Strengths Outside Consumer Sector

Until the end of 1956, the general business trend, apart from the consumer sector, is likely to be more than usually strong. In construction, capital goods and Government demand, the volume of activity is likely to be higher than currently.

The construction outlook, in particular, suggests a strong rise developing in the next six months. Most of this rise will doubtless be in governmental construction of certain specified types: Roads, perhaps schools (even apart from the fate of the

Federal School Bill) and other heavy construction lines associated with the rising institutional requirements of Federal, state and local governments. But industrial construction also is in a sustained uptrend, and what figures are available on the capital spending plans of corporations in late 1956 all indicate continued strength in this category.

Moreover, it seems quite probable that residential building activity, which has been in the doldrums ever since the fall of 1955, will be recovering slowly but persistently in coming months, as indicated by the available figures on building permits and contract awards. One of the reasons for the slack behavior of residental starts has been the difficulty in obtaining mortgage funds in sufficient quantity to maintain the building rate above 1.1 million homes a year. In recent months, however, there has been considerable evidence that the flow of long-term funds into the mortgage market is beginning to improve. In addition, legislative proposals now being considered in Washington are likely to increase the flow of mortgage funds through widening the activities of the Federal National Mortgage Association, and other agencies within the Federal Housing Authority. Housing analysts now are more or less in agreement that the rate of home-building will be working its way slowly uphill, from the present 1.1 million rate to perhaps 1.2 million by yearend.

The outlook for capital goods industries is almost as bright as the construction outlook. According to the findings of the Department of Commerce, as well as of several private surveys, businessmen's plans to purchase capital goods are still rising, and total outlays for both equipment and plant, which are now running at about $35 billion a year, may well be close to $40 billion by the early months of 1957, depending upon the degree of interruption in steel production.

Finally, Government spending is more or less clearly in an uptrend, even apart from outlays in roads and other public works. In both agriculture and defense, and perhaps in foreign aid, the pressures to increase the spending rate are building rapidly to a climax. Within the next several quarters, it seems altogether probable that the level of Federal, state and local spending, including construction spending, will rise by as much as $3 billion. This estimate is based in part on probable deliveries against contracts already in existence. This will be the most clearly defined rise in aggregate Government spending since the end of the Korean war. Whatever else may be its disadvantages on other grounds, it is likely to exert a mild but pervasive influence on general business conditions.

These probable uptrends in construction, in capital goods and in Government demand are important props under the level of business in the next six months. However, there are also a number of depressants present. Among these is the abundant condition of inventories, and possible price weakness (and hence profits declines) resulting from this inventory overhang. Inventory conditions are not as seriously distorted today as they were in late 1948, or in mid-1953, but they are nevertheless a short-term threat to business conditions.

But more fundamental than the widely noted inventory problem is a much less widely noted problem in the area of consumer demand itself. For even given the essentially stable business environment outside the consumer sector, consumer demand is likely to be a pronouncedly unstabilizing influence over the next six months.

Consumer Debt and Consumer Demand

This conclusion is premised upon a number of basic propositions about the situation of consumers in mid-1956, particularly with respect to their debts. The conclusions are, of course, only probabilities, not certainties. But their importance suggests that businessmen and investors alike will do well to keep a wary eye on developments in the consumer sector if they wish to keep well abreast of the business trend.

At the outset, it can be stated that personal incomes over the next six months are hardly likely to be any lower than the $318 billion annual rate which prevails today.

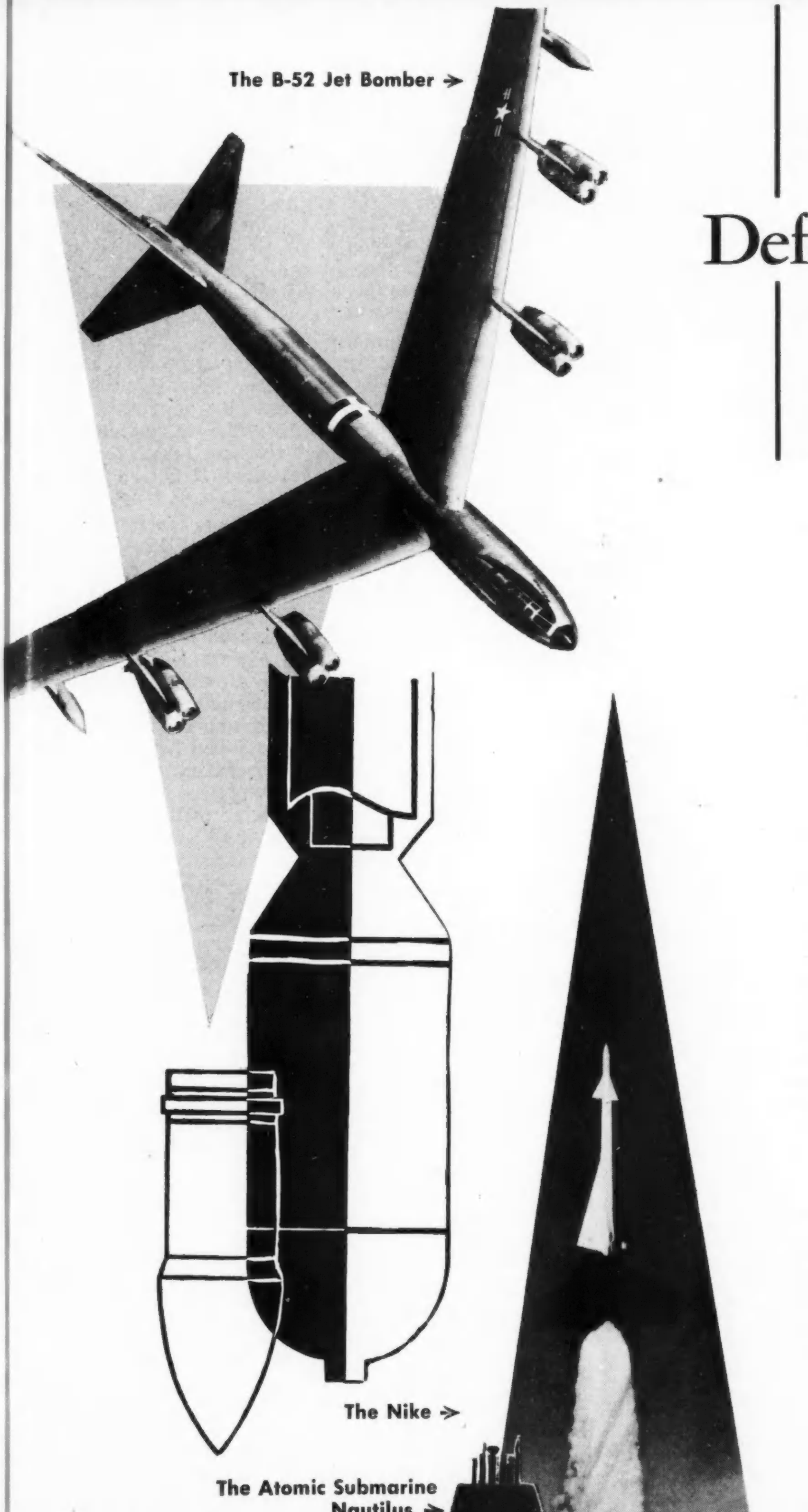
But the volume of spending out of this income is likely to fluctuate widely and produce a substantial ebb-and-flow tide under business conditions. In the fourth quarter of 1956, the volume of personal spending should be high. But it *may* decline relatively rapidly as the year closes.

The reasoning behind these conclusions, which are now held by a fairly representative cross-section of analysts, hangs mainly on the unusual debt situation in the personal sector, and its relation to the introduction of substantially new automobile models in late 1956.

Throughout 1955, individuals accumulated a record increment in personal debt. The total growth in debt in 1955 was a frightening $18 billion, the highest annual jump on record. Of this $18 billion, $12 billion was residential mortgage debt and $6 billion instalment debt. However, it is worth noting that even the increase in mortgage debt has a bearing on the future of consumer durables markets: An unknown but doubtless large portion of the debt reflects refinancing of existing homes. Large portion of the proceeds of this refinancing found its way into the market for automobiles, freezers, refrigerators, etc.

As a result of this monstrous increase in debt, durables markets in 1955 were by far the largest on record. But the burden of paying for the bumper crop of consumer-durables produced and bought in 1955 is being felt in 1956, in the form of instalment repayments. There are a number of striking ways in which the size of this repayment obligation can be illustrated. The instalment-debt portion alone now is about as large as the nation's total construction bill, excluding only public construction. Instalment-debt repayment now takes twice as much of the average family's income as does all clothing expenditures, and about 40% as much as the average family's budget for all food and beverages. In early 1956, repayment on instalment debt totaled more than all cash outlays for all consumer durables, including automobiles.

Moreover, this repayment burden is still rising; by late fall, it will be $200 million a month higher than it is now, no matter what happens to personal spending in the intervening few months. This is because the instalment repayment obligation has a built-in lag of over six months, and the peak borrowing rate of late 1955 is yet to be reflected in the repayment date. (*Please turn to page* 567)



Where Defense Money Will Be Spent

By OLIVER WARDWELL

Time-tabling represents the essential difference between Capitol Hill and the Pentagon on the newly-upped national defense procurement program and the essential question is: Shall we force the assembly lines immediately, or control the flow in more orderly manner.

In either event the ambitious program originally envisioned by President Eisenhower and the Pentagon is underway. In a budget of $34.6 billion, about $900 million has been in substantial dispute – the difference between immediate airforce needs as the President and Pentagon picture them, and as Congress sees the job to be done now.

President Backs Wilson

The money will flow into the channels of defense industry eventually. That's assured. Defense Secretary Charles E. Wilson says so. The confidence which caused President Eisenhower to enlist the production genius of General Motors for the task of correcting the flow of heavy procurement has not diminished. He strings along with Wilson. Together they say, only, that the $900 million which Congress added is not needed at the moment. It, and more, stands between this country and the air defense it must plan and maintain.

From the standpoint of de-

fense-serving industry, the budget is a unit. It will be disbursed. The pledge to "bank" what the Pentagon considers a surplus over today's needs, merely means Wilson won't buy in the manner of a hinterland yokel facing his first plunge at a cafeteria line.

An admixture of Congressional politics and Wilsonian firmness has produced a wordy flow that appeared for a time to cloud the question whether industry might expect a call for $900 million more in aircraft than first budgeted.

Conceding Senator Stuart Symington of Missouri has valuable acquaintance with the subject on the ground of his service as first Secretary for Air, it is no more than statement of the fact to assert that there is strong political motivation in his espousal of "rush order" buying of bombers. He is, to begin with, a White House "hopeful." In the field of air defense competition, the United States operates in a vacuum which invites scare talk. And scare talk lends itself to haste – undue haste, Wilson has warned. But neither the Pentagon nor the Capitol yet has produced facts to back conflicting statements as to relative air position of the United States and of the Soviet Union.

Non-productive Spending

With saturation of talk on procurement of bombers and other aircraft, there is tendency to relate a defense budget to industrial orders in somewhat direct proportion. Actually in a $34 billion setup of estimated spending, by far the greater portion will go to other objectives. There are standing expenses, fixed charges, payroll, food and maintenance items, literally by the thousands.

One may count this fiscal year's industrial procurement at close to the $10 billion mark, even against the obstructions the Pentagon places to prevent disclosure, in the name of national security. But before any of that money is spent, Defense Department auditors will have set aside about $7 billion for payrolls alone. They will have sequestered another $10 billion for maintenance and subsistence. Many additional millions will go into things known publicly only by such catch-all budgetary description as "contingencies," "emergency fund," etc.

Stress On Aircraft Research

In the rapidly-developing field of military-plane construction, Wilson is a stickler for research. It is perhaps true that he has talked more than he has performed in this department, but research has not been allowed to lag as much as critics have accused. There have been some diversions of money, intended for research, into construction. That was a principal peg on which the Symington bloc hung its argument that more assembly-line money is needed.

Examination of the printed record of hearings in Congress on the defense appropriation bill, read against the background of press-conference statements, releases, speeches and other comments, makes it clear that Secretary Wilson considers the blueprints of yesteryear not adequate for next year.

In all his statements, he stresses the point that the United States, airwise, is ahead of the Communists in some respects, on par in others. But there has been studied effort to impress on Congress and the taxpayers, without divulging what is considered to be secret matter, the fact that an orderly flow of production can blend improved construction into the assembly lines.

Because Congress, or at least a part of it, has been anxious to fight with Wilson, and Wilson is noted for running into fights on his own, the differences between the Legislative branch and the Defense Department have burgeoned out of proportion to their basic controversy. That, added to the uncertainties of competing with a potential foe whose intelligence is dammed back by Government, ground the problem. Overlay that with a national election year in the United States and one has all the elements of exactly what has developed here.

For a certainty, the Administration will not permit a Democrat-controlled Congress to dictate its programs down to the last cotter pin and reap the credit, which seems to be the plan.

Nearly Half for Air Arm

The political motivation is more clear when it is remembered that the Air Force portion of the $34.6 billion budget is $16.4 billion – including the amount Congress added to the White House and Pentagon request. In a stage of history-making development the recognized outstanding arm of defense is taking less than one-half the total. In the remaining $18.2 billions, industry has a broad and important stake, of which little seems to be heard. Yet there are procurement items of magnitude there even after payrolls and other fixed charges are met. The Defense Department isn't buying planes only. Far from it!

There are ships to be built, to be modernized and reconditioned; military housing is in for a sizable appropriation; military roadways will

50 Leading Suppliers of Defense Materiel

ACF Industries	International Business Mach.
American Telephone & Telegraph	International Tel. & Tel.
Bell Aircraft	Lockheed Aircraft
Bendix Aviation	Mack Trucks
Bethlehem Steel	Martin (Glenn L.)
Boeing Airplane	Minneapolis-Honeywell
Borg-Warner	North American Aviation
Cessna Aircraft	Northrop Aircraft
Chance Vought	National Steel
Chrysler Corp.	Olin Mathieson
Curtiss-Wright	Philco
Douglas Aircraft	Pullman
du Pont (E. I.)	Radio Corp. of America
Eastman Kodak	Raytheon
Fairchild Engine & Airplane	Republic Aviation
Firestone Tire & Rubber	Republic Steel
Ford Motor Co.	Sperry Rand
General Dynamics	Studebaker-Packard
General Electric	Thompson Products
General Motors	Timken Roller Bearing
General Precision Equipment	Underwood
Goodrich (B. F.)	United Aircraft
Goodyear Tire & Rubber	U. S. Rubber
Grumman Aircraft	U. S. Steel
Hazeltine Corp.	Westinghouse Elec.

Table of procurement of new items provided for in the Defense Department Appropriation Act for Fiscal Year 1957.

(stated in millions)

DEPARTMENT OF THE AIR FORCE:	
Aircraft and related procurement	$6,357
(includes complete aircraft, component spares and spare parts, related aircraft procurement, modification of inservice craft and guided missiles.)	
Procurement other than aircraft	$1,000
(Includes weapons, ammunition, assist takeoff units, ground powered and marine equipment.)	
Military Construction, Air Force	$1,090
Research and Development	$ 625
DEPARTMENT OF THE ARMY:	
Procurement and Production	$1,308
(Provides for the procurement of major equipment items, ammunition and guided missiles and to provide standby production facilities.)	
Military Construction, Army	$ 380
Military Construction, Army Reserve Forces	$ 36
Research and Development	$ 370
(Largely for aircraft, ammunition and related equipment, artillery, combat and support vehicles.)	
DEPARTMENT OF THE NAVY:	
Marine Corps Procurement	$ 300
Aircraft and facilities	$ 760
Aircraft and related procurement	$1,800
(Provides for procurement of aircraft, guided missiles, training and modernization aircraft, electronic and detection equipment.)	
Construction of ships	$ 32
Shipbuilding and conversion	$1,022
Ordnance and facilities	$ 165
Military Construction, Navy	$ 335
Military Construction, Naval Reserve Forces	$ 21

be built.

The Army's procurement sums in an item of $1 billion plus, with many subsidiary accounts.

Navy Department aircraft procurement accounts for about $2 billion. Ship construction and conversion, only a fractional part of which will be handled in Government yards, is down for more than $1 billion.

Research and Development

Items not readily translated into industrial orders include the Air Force's "procurement, other than aircraft" which is down for an even $1 billion. Research and development, mostly in cooperation with private industry, will be the outlet for a half-billion dollars.

The budget as it went from the Pentagon to Capitol Hill—the original draft — projected plane procurement past the $6 billion mark.

Secretary Wilson will not meet the speed law for B-52 jet bombers which Congress has written. He wouldn't if he could. And experience has shown that it isn't attainable anyway without shoving everything else aside, industrially. The 20-a-month target figure for B-52 production used by the Secretary is misleading. Actual production has not come close to that figure. Only 14 craft made this year have passed final tests of acceptability. Minor defects have been found, but Wilson regards a contract fulfilled only when it gets the stamp of acceptance for service. Here is where the research enters; to the extent that it pays off, the goal of 240 bombers a year comes closer. Between actual production and scheduled production, in the existing procurement setup, is a range of big business for private industry. It is to this situation that Secretary Wilson points in defense of his attitude that it is futile to raise goals when present targets cannot be hit.

The Lesson of Iceland

Facts brought back from Russia by General Twining will steer the progress of plane procurement to some extent. Wilson is not going to concentrate on the B-52. He's made that clear. He hasn't been as clear on what he intends to do about the big B-36. And wrapped up in the subject of types is the large question of foreign bases. The Iceland election, if not definitive on the point of overseas assists, at least points a moral against too great dependence on any single arm.

Despite the plan of emphasis on aircraft, the Wison exchanges with Senators Symington and Jackson developed the point that the Secretary intends to "bank" the $900 million "bonus money," not "impound" it. The first of these actions creates a drawing account, exactly as is the situation with other appropriated moneys; the second amounts to inactivating it without terminal date.

In any event, the country was assured that the B-52 bomber buying will pick up this year as "bugs" are cleared. Wilson made the prospect even brighter by telling the Senators to be ready for an even larger item for this purpose in the next budget.

The Views of Twining

Because General Twining's Russian visit will go far to set policy it is interesting to note that his preliminary comments at shipside reflected little optimism that the Kremlin's new look means arms can be safely stacked. The Twining recommendation with respect to air strength, believed to have been repeated when he visited President Eisenhower at Gettysburg, is a boost of 50% in B-52 wings. That would mean an increase from 11 to 17 wings.

A significant passage-at-words took place when General Twining met the press after his conference with the President at Gettysburg. A reporter mentioned to the General "this decision of the Pentagon not to use the money Congress has voted to keep us moving."

James C. Hagerty Jr., Presidential press secretary, broke in sharply to say: "There was no such decision."

The reporter pursued to ask whether General Twining believed the plane-procurement program should be stepped up to Congress' demands and when the General pleaded for time to examine the discussion, Mr. Hagerty again stepped in. He repeated that the Pentagon had not said it would not spend the $900 million appropriated by Congress for the Air Force, mostly earmarked for B-52's.

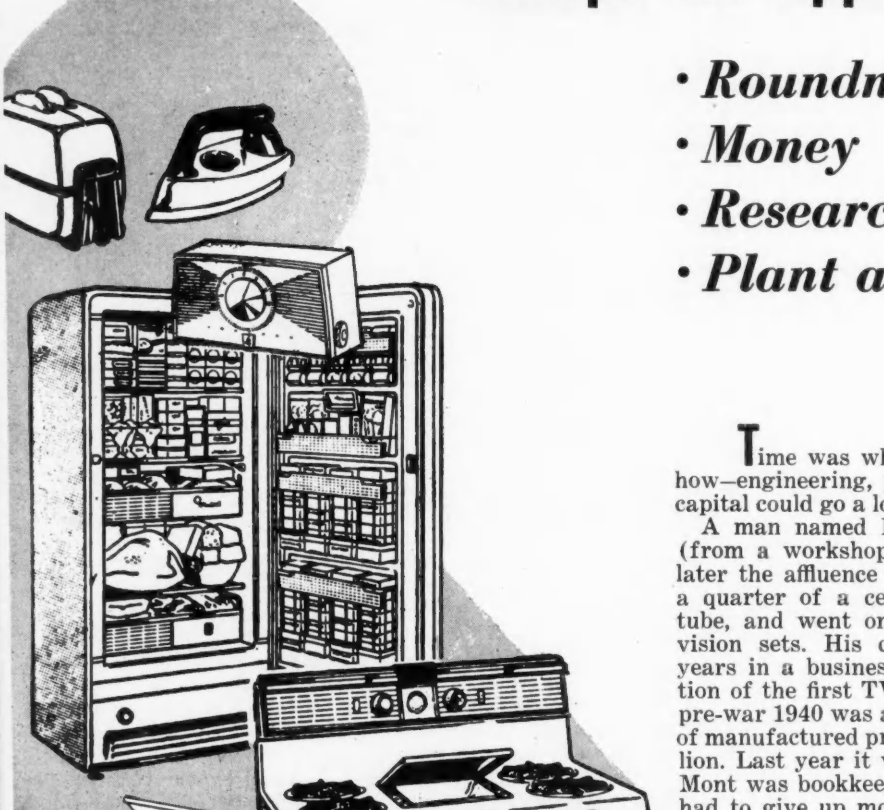
Wide Dispersal of Business

Donald Quarles, Air Secretary, likely expressing a viewpoint fixed by the Administration to dispel the notion that the money may be sidetracked unreasonably, spoke up: "I think Mr. Wilson made it very clear that we have every intent of studying this thing objectively and carefully as soon as we can get at it in carrying (*Please turn to page* 566)

Recipe for Appliance-Makers:

• *Roundness of Line*
• *Money*
• *Research*
• *Plant and Dealers*

By JOSEPH C. POTTER



Time was when a fellow with a lot of know-how—engineering, production or sales—and a bit of capital could go a long way in the appliance business.

A man named Dr. Allan B. Du Mont came up (from a workshop in the cellar of his home and later the affluence of an abandoned pickle factory) a quarter of a century ago with the cathode-ray tube, and went on to pioneer in commercial television sets. His company rode high until recent years in a business built on its sets and the creation of the first TV network of stations. Volume in pre-war 1940 was a mere $176,000. By 1953 net sales of manufactured products had soared to over $72 million. Last year it was less than $58 million and Du Mont was bookkeeping in red ink and the company had to give up money-losing telecasting properties.

Another ingenious man named Ross D. Siragusa, fired with a tremendous competitive spirit, got into radio manufacture back in 1934 by joining with two other men to raise $3,400. He raised his share by selling his car and most of his furniture to become co-founder of what is now Admiral Corp. Sales volume the first year was $240,000. The company fattened on defense orders in World War II and Siragusa started his post-war sprint for leadership of the commercial television field, which he actually attained in 1949 with low-priced sets. Admiral, which now has a well-rounded line of appliances (in contrast to Du Mont), has found the going much rougher the last several years. It no longer leads in TV sales and, even worse, profit margins have been dwindling. In 1950 it was able to bring down to net profit 8.15 cents of the sales dollar. That figure slipped to 5.16 in 1951, 4.56 in

1952, 3.27 in 1953, 2.98 in 1954 and hit bottom last year – 1.20 cents. Sales, too, have been sliding – from a peak of nearly $251 million in 1953, to less than $220 million in 1954 and to little better than $202 million last year.

Home-Laundry Appliances Compared With Year Ago

Type	UNIT SALES May, 1956	May, 1955	% Change
Washers	315,249	341,759	Off 8
Dryers	55,330	49,228	Up 12
Ironers	4,222	6,558	Off 36
Total Sales	374,801	397,545	Off 6

For the first five months of this year total sales amounted to 2,415,891 units, a drop of 8% from the 2,234,892 units sold by the factories in like 1955 period.

York Gets Cooled Off

To cite another line of appliances, there is the case of York Corp., a pioneer in the field of air-conditioning. Founded in 1874, this manufacturer of refrigerants went on to become the world's largest maker of air-conditioning equipment. For a time, only York and Carrier Corp. were across-the-board manufacturers—making everything from a room-cooler to the machinery that pre-cooled the concrete for a giant dam. York never did attain a topnotch dealer organization and Philco became better known for York room-coolers than did York Corp. itself. It was York which made the Philco units. York now has passed into the Borg-Warner organization, giving the Norge division of Borg-Warner one of the best-rounded appliance lines in the industry.

And the future would seem to belong to those companies which, in the words of Confederate General Nathan Bedford Forrest, "get there fustest with the mostest." The sledding in the appliance business is tough for all companies, but for those with a single product or a limited line of products it is a back-to-the-wall fight.

Thus, York had little to offer consumers aside from its air-conditioning equipment. It wasn't the competition from Carrier (also feeling the pinch) that made the going rough, but the attraction to a lush field by people who had other appliance lines and took on air-conditioning as another item to feed into the retail pipeline. York had to buck Philco, for which it made the room-coolers, and a lot more—nearly a hundred other companies had gotten into the business, many taking the Philco route. The result: Profit margins faded amid ding-dong competition; advertising and promotional costs became prohibitive while dealers became choosey.

Casualties now are running high in this business—about half of the companies marketing room-coolers have given them up. The Crosley division of Avco Manufacturing Corp. has decided to give up room-coolers, made for Avco by Fedders-Quigan Corp., which has turned out air-conditioning for numerous other "name" companies, including Radio Corp. of America. International Telephone & Telegraph did not linger long in the business of engineering temperatures.

Nor have the casualties been confined to the air - conditioning industry, although that sector has had more than its share owing to the ease with which other companies could enter the field. Avco has been curtailing several of its lines. Its Crosley and Bendix home - appliance divisions announced plans this spring to discontinue numerous products made for the company by other manufacturers. The items include, besides air-conditioners, water-heaters, garbage-disposers and chest-type freezers.

Motors Products Corp., whose Deepfreeze became a generic term, has sold this property after years of unprofitable operation. Motor Products had no well-rounded line of appliances.

Columbia Broadcasting System, one of the giants of the telecasting industry, thought it would be a good idea to manufacture TV and radio sets. While that company has the network facilities to "plug" radio and TV products, it is feeling severely the pressure of competition. Sets are produced in an old and inefficient plant. CBS has been negotiating with another manufacturer to make radio and TV sets chassis for it. The company has scotched rumors that it plans to get out of manufacturing altogether, although it gave up radio sets this month.

In the field of TV, radio and high-fidelity phonograph instruments, Capehart and Farnsworth once were leading names. Several years ago they passed to International Telephone & Telegraph Corp., which once envisaged a rounded line of appliances (it even was interested in acquiring York). The division was operated at a loss. It was the usual story of insufficient retail outlets, high promotional costs and dwindling profit margins. This spring I. T. & T. withdrew from the business.

Other "name" companies that have given up or left the field include Hallicrafters, Raytheon (sold its TV set business to Admiral), Sparton, Sentinel and Stromberg-Carlson.

Declines Amid Growth

Oddly, the casualties have mounted at a time when the appliance business has burgeoned. About a million room-coolers were sold in 1954. The number rose to 1.3 million last year and a new top is in prospect for this year. Production also has been mounting in such fields as refrigerators, washing machines and vacuum cleaners.

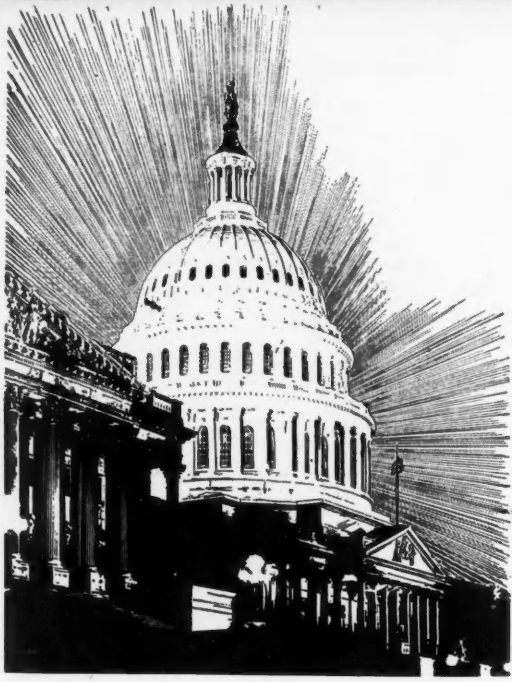
Over - production and rising inventories have given way to price-cutting. The death blow to Fair Trade dealt by the discount houses (department stores and local dealers have

(*Please turn to page* 567)

Appliance Firms Feeling the Pinch
(stated in millions)

	Sales 1953	1954	1955	Net Profit 1953	1954	1955
Admiral Corp.	$ 250.9	$ 219.6	$ 202.4	$ 8.2	$ 6.5	$ 4.08
Avco. Mfg.	428.3	375.4	299.3	3.4	3.6	0.76
Du Mont Labs.	72.3	71.5	57.8	1.5	7.6	3.7
Magic Chef	32.2	23.8	19.0	^{d}0.11	^{d}1.2	^{d}0.91
Motor Products	101.6	87.0	83.5	3.1	^{d}1.1	^{d}1.7
Servel, Inc.	147.6	87.8	58.6	^{d}0.97	^{d}6.0	^{d}2.3
Westinghouse Elec.	1,582.0	1,636.0	1,440.9	74.3	79.9	42.8

^{d}—deficit.



Inside Washington

By "VERITAS"

RACKETEERING in labor-union operations has cost the movement an important legislative friend. Senator Irving M. Ives of New York will steer a Senate inquiry into violence and illegal practices generally. Blinding of Labor Columnist Victor Reisel at the height of his radio campaign to cleanse organizational methods in the New York City area generated nation-wide demands that those responsible be brought to book and that the multi-million dollar annual tribute exacted from business be ended. Outwardly the labor groups are all for it. But there will be scurrying for correctives to beat the probe.

WASHINGTON SEES:

Time is running out on a Congressional session which appears to have carefully budgeted other things but to have given little attention to scheduling its own work. In this respect it differs little from sessions which went before, including the fact that it learned no lesson from the eleventh-hour rushes of other years.

The legislators came down the home stretch with most of the major items of Congressional business still in dispute. Heaviest cost of all, the national defense, couldn't be fixed until the very last minute because the policy on which that determination must rest, hadn't been decided. The same was true of foreign aid. Yet no subjects were more discussed than these, since the opening gavels dropped last January.

Both parties had civil rights planks in their nation-election platforms. The language was identical, if obscure in detail. In their reach for minority-group support, both put on the act of feverish activity and each berated the other for non-action. But it was foreordained that there would be no legislation because the Senate could be depended on to stop it. The school bill was doomed, again by the Senate.

SKEPTICISM on the part of great numbers of Government employes plus a campaign being conducted by the Blue Cross and Blue Shield to point up defects in the system, are expected to delay entry of the Federal government into the medical insurance program advocated by President Eisenhower. The privately-operated assurers claim the proposed method by which 5 million Government payrollers and their families would get free insurance against "medical disaster" was attacked on actuarial grounds. Private companies say competition isn't important, since they deal in policies with limited liability.

NATURAL GAS rates may be adjusted upward, not downward, in the first case to be completed since the Federal Power Commission took control. An FPC examiner has reported on Phillips Petroleum Co. operations. He listed revenues of $45 million and reckoned the income should have been $50 million. Figures are based on estimated costs of developing natural gas, a reasonable rate of return assumed at 9%, and full credit both for taxes paid and for depletion allowance, plus drilling credit. The Phillips Petroleum study began in 1948. FPC jurisdiction was sustained by the United States Supreme Court and by Congress.

IMPLICATIONS of politics naturally will be read into the decision of the Justice Department to bring anti-trust proceedings against General Motors based on the manner in which it conducts one of its lesser enterprises. It is an effective answer, some believe, to the report that Charles E. Wilson has made GM a sacred cow, immune to legalistic disturbance on Government motion. This overlooks the fact that the action is based upon, and will rise or fall on, the study and report made by the Senate's anti-monopoly subcommittee, Democrat-controlled and headed by one of that party, Senator Joseph C. O'Mahoney of Wyoming.

As We Go To Press

◀ State Department sources have told the diplomatic office that the uprising in Poznan and other industrial centers was much more than news dispatches implied. The facts are being analyzed. It's certain that the death toll was much greater than the reports suggested. And it is known now that it was not the dying fury of the old soldiers but a revolt by the new generation, raised on a diet of Communism, but unwilling to stomach it any longer. Moscow has gone all out to prevent recurrence, taking the calculated risk of recognizing the rebellion for what it is and crowding the jails with participants and suspects. This brings the warfare into almost every household in the Poznan district. The Reds preferred it that way, rather than to brush off the matter as an impetuous act by a "subversive" element.

◀ Important from the standpoint of the assistance that democracies will receive in their efforts to push back, or at least contain Communism, is the belief that the revolt was not propagandized from without. The State Department insists it was spontaneous, not led by an underground of foreign creation. Depth of the Polish feeling against Red captivity is revealed in the fact that the workers went to war unarmed. What they obviously expected was that much of the army would defect to their side.

◀ If Defense Secretary Wilson persists in handling procurement money according to his own schedules, the Attorney General of the United States will give him only the legal service to "the team" demands. Brownell has gone on record that Congress control of the purse-strings doesn't mean only in doling out money. In the specific instance which generates heat between Capitol Hill and the Pentagon, Wilson takes the position it isn't required to spend appropriations according to a pre-ordained schedule; that he may delay procurement if he sees advantages in such a course. The Attorney General says Congress has the right to "watchdog" the spending. But the saving clause in his statement, so far as Wilson is concerned, is that agencies are required to administer their budgets. He has indicated that administration does not involve defying the express view of Congress.

◀ The rift between the legislative and the judicial arms of Government is widening. The Supreme Court is under attack in Congress, and now Governors of the several states have joined in a high-level jurisdictional warfare. The Conference of Governors, meeting at Atlantic City, disputes the high court's right to invalidate state laws on the ground that Federal legislation has entered the field. The court's contention springs from the theory of the superior sovereign—that the city may supersede the taxing district, the state the city, and the Federal government (within the Constitution), the state. But it's a situation in which the Supreme Court has the last say, judicially, for there's nowhere else to go.

◀ High court decisions at which some Congressmen rail and which the Governors criticized, dealt chiefly with the right of a state (Pennsylvania) to control subversion, and the power of a state (Nebraska) to enact and enforce a "right to work" statute. If any enterprise can be said to involve interstate commerce it must be the railroads. When Nebraska attempted to forbid the closed shop among railroad workers it ran straight into the policy of the Federal Railway Labor Act. Pennsylvania sought to write different rules than Congress had made to suppress crimes against the United States. What many of the court's foes really are aiming at is the ruling that racial segregation in public schools must be discontinued in places where state statutes require the contrary.

◀ Secret weapon of the Republican campaign tacticians is being unfolded. Corruption in the highest echelons of the Democratic administration which they supplanted, is marked for spotlighting. Convictions in the cases of T. Lamar Caudle and Matthew Connelly were the starting points. They came months after the indictments were filed. But the Department of

Justice had not been putting all its eggs in one basket: Grand juries in a dozen cities have been examining witnesses in other cases involving Truman characters all the way from those playing leading roles down to the political spear-carriers. Indictments will come soon.

◀ Public-power advocates have been having field days in Congress, reminiscent of the Roosevelt-Norris-Ickes regime. Private power companies which have had billions ready to throw into a huge development project on the Niagara see prospects for this operation dwindling. On the House calendar is committee-indorsed legislation authorizing New York State to install the works. The measure passed the Senate last year. Now it's racing against adjournment. A rewritten Gore bill to put the Government into the atomic-power development field with the authority to sell at a loss to municipal systems, seems headed for enactment.

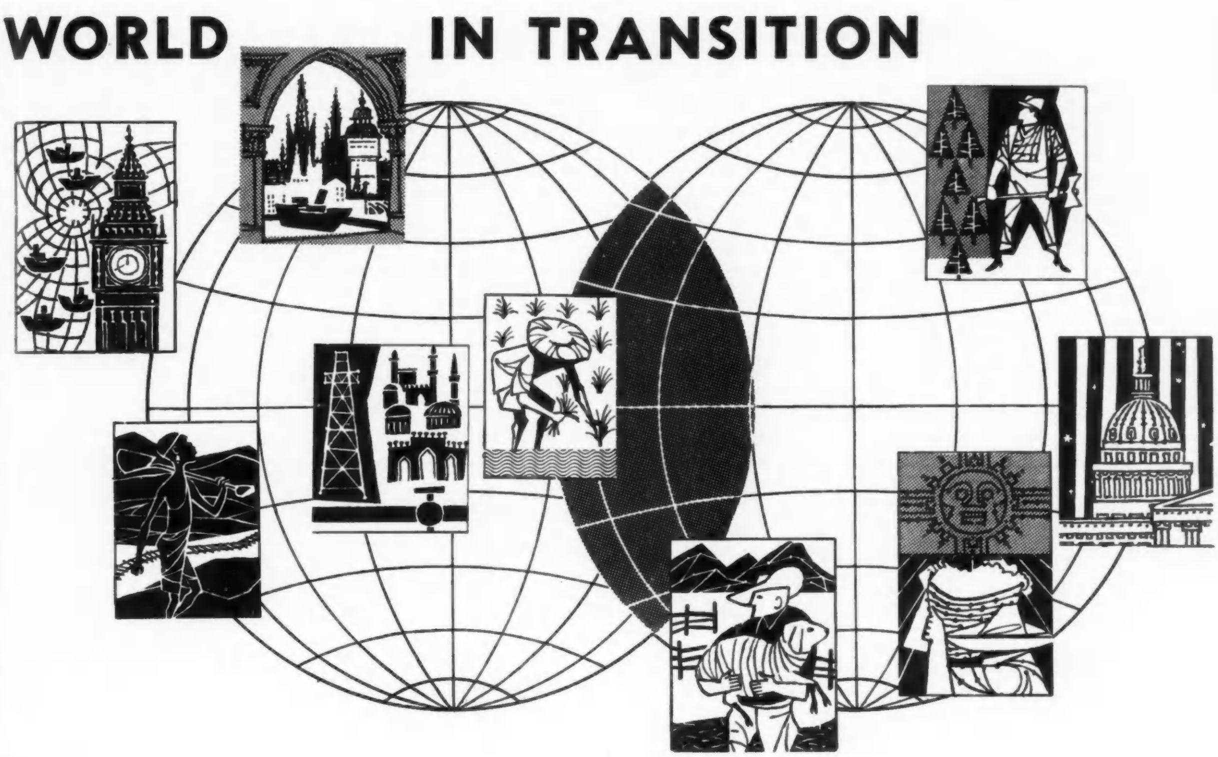
◀ In a final reach for Federal income tax reduction this year, AFL-CIO has prepared a schedule which is represented as a method by which wage-earners could be given cuts aggregating $3 billion a year, and adjustments made elsewhere which would give the Treasury three times that amount. The source of these proposals suggests the methods: Soak the "haves." Increased exemptions, or a cut up to one-half in the first tax bracket would be the method. Increased tax revenue resulting from loop-hole closing is tabulated by the labor organization, with these items: dividend credit .4 billion; withholding of dividends and interest, .3 billion; capital gains, 1 billion; split income, 3.5 billion; family partnership, .1 billion; stock option, .1 billion; depletion, 1.3 billion; estate and gift, 1 billion.

◀ Blending diplomacy and economics, the Senate has ruled it is unwise to write tariff legislation into foreign aid measures. Its members have rejected amendments which would have tightened, at least temporarily, import controls over Japanese textiles. Contrary action might have staved off a showdown between the State Department and Southern states which are indulging a boycott against Japanese materials competing on the market with domestic fibers. The approach was to be a temporary import curb, effective until a U. S. Tariff Commission study could establish the facts. The study will be made made anyway, but the Senators considered tariff schedules had no place in the foreign-aid bill.

◀ Congress is preparing either to reduce the national debt, or increase it. It's all a matter of bookkeeping approach. Here is what happened and is happening: The statutory debt limit is $275 billion. Last year, after a hard struggle, the Treasury obtained a 12-month temporary increase of $6 billion. Now, after a year of trying, it appears certain that the Government cannot operate within the statutory limit, so Congress is asked to grant another temporary increase, this time in the amount of $3 billion. What Congress is considering now is not a reduction in the Federal debt limit, but an increase of $3 billion in the authorized ceiling.

◀ Volume of agricultural exports, exclusive of cotton, during the fiscal year ended June 30 is expected to reach the highest level attained in 30 years. Omitting cotton, the quantity exported during the 1955-1956 fiscal year is 20% ahead of the big foreign aid year 1948-1949, and also of the Korean War year 1951-1952. With cotton included, the volume of 1955-1956 has been exceeded only twice in the 30-year period. And cotton exports are beginning to pick up, getting back on the million-bale monthly basis. Value of farm exports in the July 1955-May 1956 period is estimated at $3.1 billion, compared with $2.9 billion in the same period one year ago. May shipments totaled about $340 million—up 48% from May of 1955 and 9% from April of this year.

◀ On the opposite side of the world-trade ledger, importers are storming the Senate finance committee with protests against H. R. 6040, intended to change the present customs valuation procedure. The bill got by the House with none of the furore attending its appearance on the Senate committee calendar. It proposes to eliminate foreign value as the basis of levying import duties, and make export value the single primary basis. The Senate committee has objected to this on the ground that by reducing valuations, the effect would be to reduce tariffs below the rates set in Reciprocal Trade Agreement.



Economic Warfare in the Middle East

By JOHN H. LIND

Among the world's current hotspots the Middle East can well claim first place. There are four reasons for this: oil, Israel, Britain and Communism. Briefly, oil has made the Middle East the world's greatest energy supply center, Israel has created an oasis of Western living standards in the midst of an economy just emerging from economic feudalism, Britain is desperately trying to hold on to the remnants of her Middle East possessions and Communism, as everywhere, has entered the area to forestall amicable solutions to the accumulated difficulties.

Oil in the Middle East

Let us first look at oil. As the accompanying chart shows, the Middle East contains 71 per cent of the free world's oil reserves. Actually, this is a conservative estimate. Wallace E. Pratt, an eminent U. S. geologist, has just come out with a study placing proved free-world reserves at 306 billion barrels of which 230 billion, or 75 per cent, are located in the Middle East. In terms of oil production the Middle East's share is still much smaller since it is a relative newcomer to the world oil trade—it did not assume real significance until after World War II—and had to be fitted in with the established production from the older areas. Nevertheless, its share of total world production is rising rapidly, as is shown in the table:

Production of Crude Oil

(millions of tons)

	1950	1953	1954	1955
World Total	536.3	675.4	706.6	788.5
Middle East Total	88.5	122.2	137.8	162.1
Middle East Output as Percentage of World Total	16.5	18.1	19.5	20.6

Though Middle East oil exports are already of vital importance to the free world, their real growth is yet to come. Within ten years 31 per cent of the free world's oil consumption, which will have nearly doubled by them, will be supplied by the Middle East.

Where is the Middle East oil consumed? The bulk goes to Europe which relies for about 85 per cent of its oil needs on the Middle East. The balance goes to the western hemisphere, various Middle East countries and the Far East, in that order. For Europe Middle East oil is absolutely vital. The economies of Britain and our allies on the Continent would face an energy crisis of catastrophic dimensions if they were cut off from their Middle East oil supplies for any extended period. The U. S. imports about 300,000 barrels of Middle East oil daily, equivalent to roughly 4 per cent of our total consumption but these imports are not vital to our economy and could easily be replaced by higher domestic production. This does not mean that the U. S. has no stake in Middle East oil. Within ten years we will probably have to import substantial

quantities of it to supplement our domestic output. Equally important, U. S. oil companies own 58 per cent of the Middle East's current production.

If oil imports from the Middle East are vital to Europe and Asia, oil exports to these areas are at least equally vital to the Middle East. Without oil exports the Middle East would be economically one of the world's least important and, consequently, poorest regions. As the accompanying table shows, oil exports since 1953 have accounted for more than all other exports combined. Last year they were equivalent to over 60 per cent of the Middle East's total shipments abroad. Even more important is the fact that they are rising rapidly while other exports have stagnated since 1950.

Petroleum revenues are thus the basis of the Middle East's economy. Last year, they amounted to $880 million, a 340 per cent increase over 1950. To get the full impact of oil operations on the Middle East economy we must add about $150 million annually for indirect receipts like wages and local purchases and another $220 million annually for

Middle East Foreign Trade

(in million dollars)

	1950	1953	1954	1955*
Imports	2,145	2,734	2,725	2,742
Exports	2,679	3,106	3,326	3,742
Petroleum Exports	1,234	1,672	1,907	2,192
Other Exports	1,445	1,434	1,419	1,450

* Estimated.

MIDDLE-EAST OIL SUPPLIES

KUWAIT	Kuwait Oil Co. 1955 output 54.8m.	British Petroleum	50%
		Gulf Exploration	50%
SAUDI ARABIA	Arabian Amer. Oil (Aramco) 1955 output 47.6m.	Stand. Oil. Cal.	30%
		Texas Oil	30%
		Stand-Oil N. J.	30%
		Socony Mobil.	10%
IRAQ	I.P.C. 1955 output 33.7m.	British Petroleum	23.75%
		Royal Dutch-Shell	23.75%
		Comp. Francaise des Petroles	23.75%
		Near East Dev. Corp. (Stand. N. J. 50% Soc. Mobil 50%)	23.75%
		Gulbenkian	5%
IRAN	Int. Consortium 1955 output 16m.	British Petroleum	40%
		R. Dutch Shell	14%
		Compag. Francaise	6%
		Gulf Oil	7%
		Socony-Mobil	7%
		Standard Oil, N. J.	7%
		Standard Oil, Calif.	7%
		The Texas Co.	7%
		Iricon Agency	5%*
BAHREIN	Bahrain Petroleum Co. 1955 Output 1.5m.	Standard Oil California	50%
		The Texas Company	50%
QATAR	Petroleum Develmt. As for I.P.C. 1955 Out put 5.4m.†		

* Richfield Oil Corp. 12, Amer. Indep. Oil 12, Atlantic Refiining 12; Hancock Oil 12, Pacific Western 12, San Jacinto Pet. 12; Signal Oil & Gas 12, Standard (Ohio) 12, Tidewater Assoc. 12 — 5%

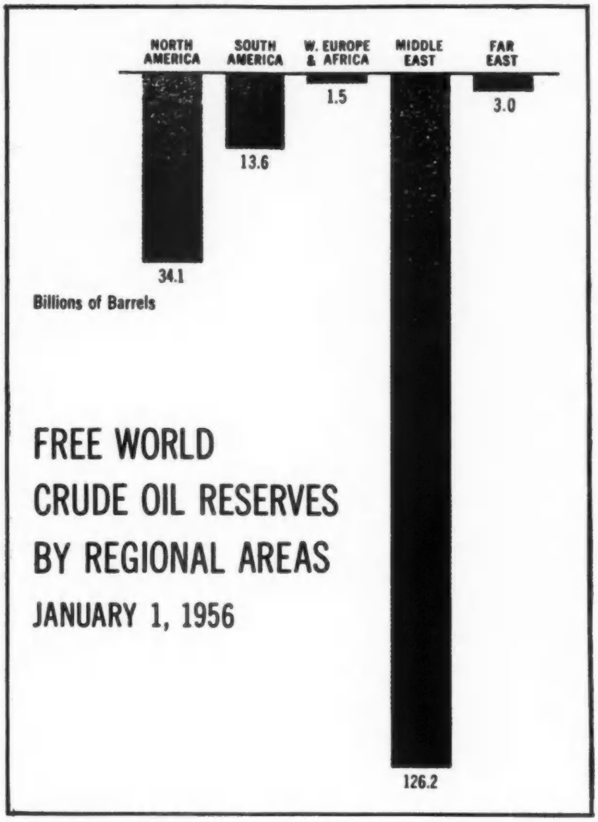
capital investment by the oil companies. The combined receipts are thus well over $1 billion per year and rising.

Can the Middle East use its oil wealth to coerce the West into supporting Arab policies which we would otherwise not condone? Theoretically, yes — because Europe can not do without Middle East oil; practically, no — because the Middle East can not do without the continued flow of oil royalties and because the area's oil producing countries do not present a united political front. Oil royalties represent the following shares of total government revenues in the major oil producing countries.

Kuwait	97%
Saudi Arabia	71
Iraq	54
Iran	40

They are of such paramount importance to the government budgets of Middle East countries that a sudden cessation would bring economic chaos and would probably topple the existing government. Neither can the Middle East countries sell their oil elsewhere. The western hemisphere is generally self-sufficient in oil at present and so is the Soviet Bloc. Much as the Russians would like to take over the Middle East oil industry, they can never do so in peace time since they have neither any need for Middle East oil, nor the tankers to carry it to their consumption centers, or the refinery capacity to process it in addition to their own domestic crude oil. It is one of nature's strokes of luck that the Soviet Bloc has enough oil on its own soil to last it for quite some time. If it were different, if the Soviet Union had to depend on foreign supply sources for its oil we might well be involved in a shooting war today over the ownership of the Middle East's oil deposits.

Another reason why we need not fear an Arab oil boycott is the fact that concerted action among the oil countries is unlikely to be achieved and without such action the boycott by one country would merely result in higher shipments from the others. This is just what happened when Iran tried to nationalize its oil industry and consequently was blockaded by the British. Different political affiliations and interests would also work against any concerted action by the oil-producing countries. Iran, for instance, is not a member of the Arab League and is not wholly sympathetic towards the League's policy while Kuwait, the biggest producer, is a small sheikdom under British protection. Its ruler who has invested most of his surplus oil royalties in Britain is much more worried over the lusty expansionism of neighboring Saudi Arabia than over the West's Middle East policy.



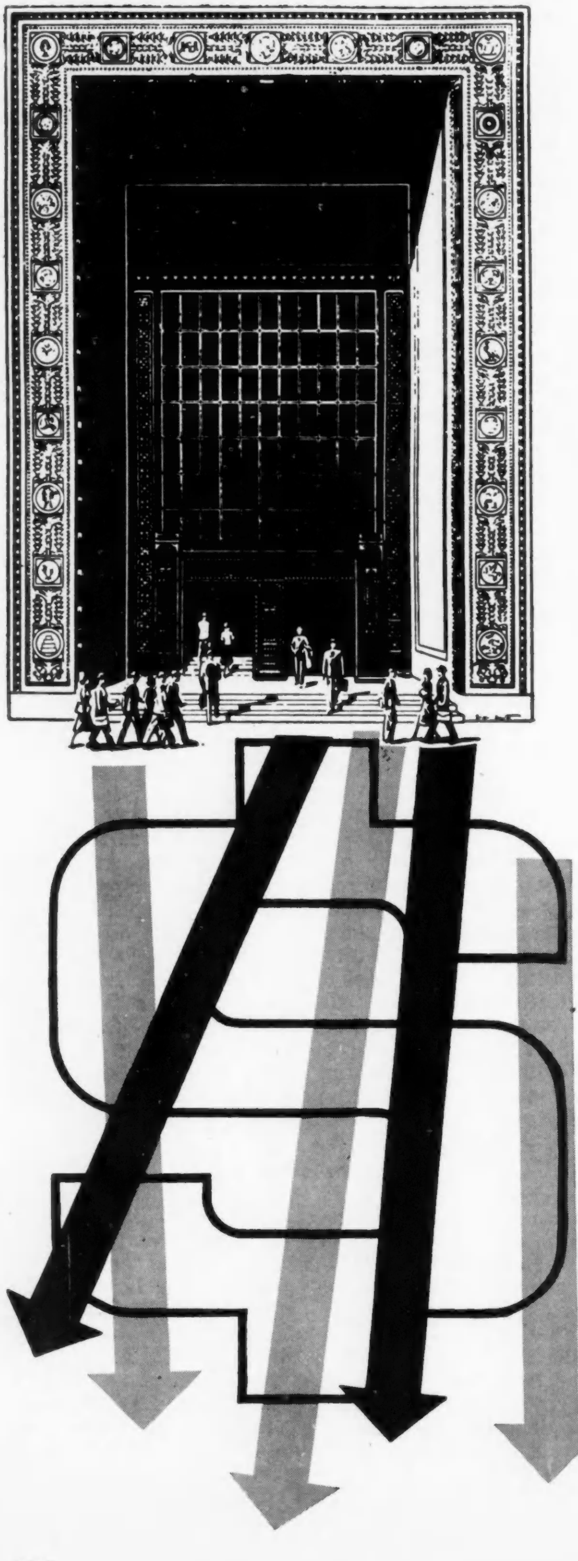
FREE WORLD CRUDE OIL RESERVES BY REGIONAL AREAS
JANUARY 1, 1956

However, there *is* a fly in the ointment. For Middle East oil to reach Europe it must be *transported* either by pipeline to the Mediterranean or by tanker through the Suez Canal. This means that other countries than the oil producers also have a say on whether oil flows to Europe. These countries receive only a relatively small income from the traffic of oil across their territory. They would therefore not incur great financial sacrifices if they stopped the flow of oil for any reason. On the other hand, they would certainly come under heavy pressure from the oil producing countries whose output would of course have to be shut down. Nevertheless the possibility of such action certainly exists. Egypt refuses now to let Iranian oil shipments to Israel go through the Suez Canal (they go around the Cape of Good Hope) and Lebanon, through which the pipelines from Iraq pass, has just expropriated these pipelines and a refinery, all owned by the Iraq Petroleum Company, because it could not come to terms with the company over a new formula for higher transit fees. As Middle East oil exports increase the oil producing companies must either build additional pipelines or put more tankers into service to carry the oil through the Suez Canal. Both decisions are wrought with political risks. In case of the Suez Canal there is the additional fact that the 99-year period for which it was leased to the French and British owned Suez Canal Company will end in seven years and the world's biggest shipping lane will then automatically become the exclusive property and responsibility of Egypt.

The Arab-Israel Conflict

Oil is the most positive aspect of the Middle East situation. Its most negative aspect is the Arab-Israel conflict. At this moment it has once again reached a point where a full-scale war between the two sides seems a real possibility. So much has already been written about this conflict that everyone is by now familiar with the issues. As of now, the two sides are at least as far apart as ever in their nine-year struggle. The Arabs have refused to acknowledge even the existence of Israel and popular sentiment has been whipped up to such a frenzy that any Arab government which even attempted to make a direct approach to Israel would not survive the day (*Please turn to page* 564)

BANK STOCK OUTLOOK At Mid-Year



By J. S. WILLIAMS

It was no surprise that banks turned in excellent earnings results in the first half of 1956. Bank loans reached record levels, interest rates rose and yields on securities were high.

Indeed the sum seemed brighter than ever in the banking field. Yet the sky was not without clouds. Prosperity had focused public and political attention on banking, creating an uneasy feeling among bankers. A bill to curb holding companies was enacted into law by Congress and other important legislation which would have an impact on banking was being considered.

And while first-half operating results augur well for the second half of 1956, there are nevertheless the uncertainties of which way business loans will move or what the Federal Reserve will do.

Traditionally, business loans on the books of commercial banks increase in the second half of the year and decline in the first six months. However, this pattern does not always hold true. Loans extended by New York City's banks, in the first half of 1956, increased $989 million, well above the $517 million increase in the like period of 1955.

In the second half of 1955, business loans rose $1,088,000,000, while they declined $80 million in the second six months of 1954, a year of mild recession.

Pinpointing the Increase

The big increase in the first half this year was due chiefly to borrowing of $656 million by metals and metal-products companies. Much of this went to finance buildup of inventories in anticipation of a steel strike. Consequently, it is expected that these credits will be liquidated as inventories are manufactured into finished products and sold. A big payoff of such loans could tend to offset the normal seasonal upturn that begins early in August.

Another negative aspect of the business-loan outlook involves borrowing by sales-finance companies. In the second half of last year they borrowed heavily from banks, helping to push bank credits higher. However the banks increased the prime rate on business loans to 3¾% in April this year and finance companies are apt to find it less costly to borrow by selling commercial paper. Rates on these short-term unsecured notes dropped ¼ of a percentage point early in July. And they are likely to

drop again if the money market eases sufficiently, while the prime rate will no doubt remain where it is through the second half.

Positive Factors Predominant

These few negative factors are far outweighed by the positive ones, however. Despite the likelihood of some unusual downward movements in business loans, seasonal factors favor an upturn. And most of the loans being repaid are being replaced with loans at higher interest rates. The full effect of the higher prime rate put into effect in April is yet to be felt. There are many loans on the books that were extended at $2\frac{3}{4}$% or 3%. As these are repaid, new credits will be made at higher rates even if the prime rate is reduced in the second half, something which is very unlikely.

Earnings, Expenses, and Dividends of All Member Banks

(In Millions of Dollars)

Years	Gross Earnings	Operating Expenses	Net Current Earnings	Net Income	Dividends Paid	% of Net Income
1946	$2,403	$1,469	$ 934	$ 758	$ 267	35%
1947	2,579	1,650	929	653	281	43
1948	2,828	1,795	1,033	621	294	47
1949	2,986	1,889	1,097	686	313	46
1950	3,265	2,020	1,245	781	346	44
1951	3,669	2,232	1,437	756	371	49
1952	4,120	2,501	1,619	829	390	47
1953	4,590	2,782	1,809	865	419	49
1954	4,826	2,999	1,828	1,096	456	42
1955	5,343	3,265	2,077	985	501	51

Net income is shown after taxes, profits on securities, recoveries, losses, charge-offs, and net increase in valuation reserves.

While the prime rate will tend to remain firm, other short-term money rates may soften. Indeed some rate-softening has already been witnessed in commercial paper and bankers' acceptances. The trend of rates, however, revolves around Federal Reserve monetary policy.

Steel Strike Impact

Money-market observers spend a good deal of time trying to second-guess the Federal Reserve and sometimes it is a futile occupation. However, the best guide to Federal Reserve policy is economic indicators, which, however, the Board itself sees well in advance of public scrutiny.

Last year this time the Federal Reserve was mainly concerned about consumer credit and the mortgage market. Consumer credit, while it has been rising, has not been increasing at the same pace as a year ago. The mortgage market shows signs of declining. At the present time neither of these two factors seems to trouble Federal Reserve officials as much as they did a year ago.

The steel strike, while it may well lead to another round of wage-price increases, is bound to dampen the economy somewhat. Yet following the settlement of the steel strike the economy may surge forward again as steel production resumes and pent-up demand seeks to be satisfied. Consumer spending might drop somewhat as unemployment spreads as a result of the strike. However, this is not apt to make a very big dent in spending.

Little Rate Easing In Prospect

Capital expenditures for plants and equipment seem to be headed for a record high this year, despite the strike. And while residential construction is down, it has been more than offset by commercial building.

Statistical Data on Leading Bank Stocks

	Total Deposits (Millions)		Loans & Discounts (Millions)		U. S. Govt. Securities (Millions)		Book Value per Share	Earnings per Share*		Indicated Current Dividend	Recent Price	Dividend Yield
	6-30-56	12-31-55	6-30-56	12-31-55	6-30-56	12-31-55	6-30-56	1st Half 1956	Year 1955			
American Trust, San Francisco	$1,430	$1,410	$ 805	$ 757	$ 354	$ 411	$ 36.93	$ .87[5]	$ 3.32	$1.60	$ 43	3.7%
Crocker-Anglo N. Bank, S. F.[3]	1,319	1,361	689	644	363	277	25.54	1.19	2.24	1.20	33	3.6
Bank of America, San Fran.	8,499	8,803	5,074	4,728	1,821	2,149	21.65	1.44	2.75	1.80	39	4.6
Bankers Trust, N. Y.	2,414	2,494	1,496	1,403	450	464	59.68	2.37	2.25	2.80	64	4.4
Chase Manhattan, N. Y.	6,574	6,789	3,552	3,510	1,175	1,231	44.26	1.49	3.52	2.20	49	4.5
Chemical Corn Exchange, N. Y.	2,734	2,896	1,469	1,307	497	507	42.65	1.88	3.62	2.00	46	4.3
Cleveland Trust Co.	1,332	1,353	700	636	400	446	253.09	5.89[5]	20.42	6.00	255	2.4
Continental Illinois, Chicago	2,360	2,474	1,056	1,011	718	863	84.47	1.96[6]	6.50	4.00	87	4.6
First National City, N. Y.	6,250	6,309	3,478	3,185	1,114	1,319	56.26	2.56[2]	4.25	2.60	64	4.1
First National of Boston	1,503[7]	1,613	909[7]	868	323[7]	374	55.47[7]	2.96	4.91	2.75	61	4.5
First National of Chicago	2,584	2,718	1,448	1,330	627	792	225.06	4.91[8]	19.60	8.00	307	2.6
Guaranty Trust, N. Y.	2,448	2,714	1,476	1,499	678	830	82.16	2.64	4.87	4.00	79	5.0
Hanover Bank, N. Y.	1,640	1,754	909	812	296	441	25.81	2.37	3.88	2.00[4]	51	3.9
Irving Trust, N. Y.	1,493	1,558	767	724	347	395	25.60	1.23	2.20	1.60	33	4.9
Manufacturers Trust, N. Y.	2,669	2,956	1,066	1,058	722	769	40.07	1.72	3.22[1]	1.75	41	4.3
Mellon National, Pittsburgh	1,686	1,674	809	758	462	486	103.48	1.90[5]	6.74	3.40	110	3.1
National Bank of Detroit	1,750	1,880	551	495	669	753	45.39	2.22	4.75	2.00	62	3.2
New York Trust	701	773	416	401	154	177	65.91	2.58	4.90	3.00	66	4.5
Philadelphia Natl.	888	910	458	418	148	172	99.42	1.93[5]	7.51	5.00	108	4.6
Security First Natl., Los Ang.	2,020	1,976	689	632	960	960	36.52	.82[5]	4.10	1.60	53	3.0

*—Net operating or indicated earnings.
[1]—Adjust for 2-for-1 split Jan. 1956.
[2]—Including City Bank Farmers Trust Co.
[3]—Consolidated Figures of Crocker First National Bank & Anglo California National Bank.
[4]—Adjusted for 20% stock dividend in August 1956.
[5]—First quarter.
[6]—January 1 to April 10, adjusted for 20% stock dividend.
[7]—March 31, 1956.
[8]—January 1 to April 10, 1956

Actually, most factors seem to point toward little easing by the Federal Reserve. During June the "Fed" supplied reserves to the commrcial banking system to help banks meet expected steep loan demands by corporations seeking funds to meet June 15 tax payments. Then the Federal supplied reserves again in July to help the banks through the July 4 holiday period, when currency in circulation increases, pulling funds out of the banks.

While the Federal Reserve intended to aid the money market in this period there was some evidence the ease went further than the Federal Reserve planned. Float — credit extended to bank reserves by the Federal Reserve against checks delayed in collection—increased when it was expected to decline. This put more funds into the commercial banking system than might have been expected. What's more, vast movements of corporate funds in the money market during the June-July period tended to exaggerate the ease and pulled down the rate on 91-day Treasury bills. This in turn put pressure on some other rates.

While the money market may have eased more than the Federal Reserve intended, it nevertheless could have played it closer so that the market might not have eased as much as intended. So the "Fed" tipped its hand somewhat and indicated it would lean slightly towards easier money in the months ahead, unless inflationary pressures became prominent in the economy again. In fact, the Federal Reserve may make bank credit readily available if business should begin slipping some.

At this time, however, it appears the tone of Federal Reserve policy calls for slightly easier money than existed in the first half of the year.

Normally, deposits tend to increase in the second half as business loans rise. If money becomes slightly easier, this may give impetus to the upturn in deposits. At any rate, easier money will increase the total loans and investments of commercial banks.

The second half also is a period in which the Treasury seeks new money. The Federal Reserve could be expected to supply sufficient reserves to the banking system to help absorb some new Treasury securities and this would help to increase bank investments.

Aids to Earnings Rise

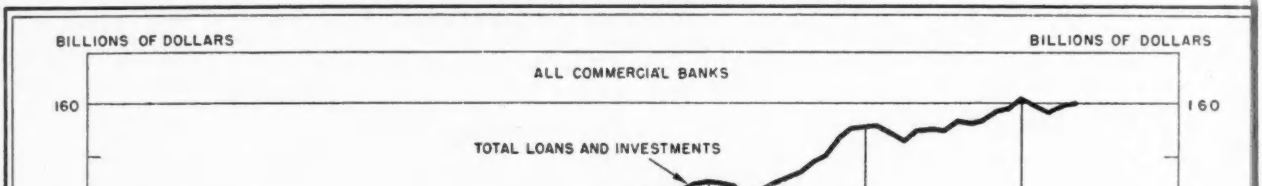
There are other incidental factors that will contribute to a better picture in the second half of the year.

In the first half, most leading New York City banks, and some others in the country, increased the service charge on special checking accounts. These accounts, which in some cases had been operated in the red, are now expected to be in the black.

The New York State Legislature this year passed a law permitting banks to increase the fees on trust accounts. Increases already have been put into effect by some New York banks.

Second-half earnings, (*Please turn to page* 562)

BANK LOANS, INVESTMENTS, AND RESERVES

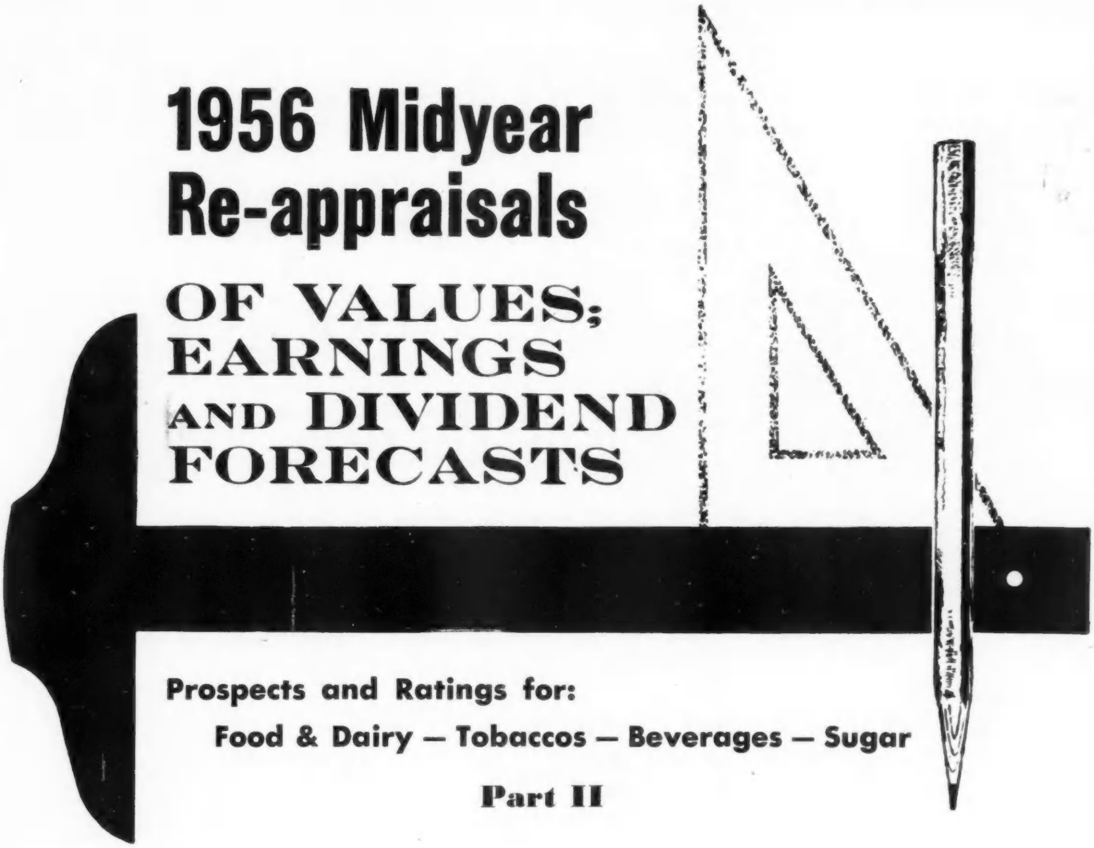


In April, loans of all commercial banks increased $0.6 billion, somewhat less than the sharp expansion in March and about the same as in April of last year. Bank holdings of Government securities declined $0.4 billion.

The average reserve deficiency of member banks (borrowings at the Federal Reserve less excess reserves) decreased between April and May.

1956 Midyear Re-appraisals

OF VALUES; EARNINGS AND DIVIDEND FORECASTS



Prospects and Ratings for:

Food & Dairy — Tobaccos — Beverages — Sugar

Part II

The somewhat mixed showing made by business in the first half of this year seems likely to be duplicated in the second half. That is to say not every industry will perform from here on out as in the first six months, but rather that there will be no uniform action within the economy.

Figures, such as the Commerce Department releases, showing personal income running at a record annual rate of $317 billion are highly encouraging, but the fact remains that there is something less than universal sharing of the general prosperity. Thus, to an automobile worker, who has been laid off because of a 25% cutback in passenger-car output, these times are something less than prosperous. And to a textile manufacturer, whose business volume hovers around an all-time high while net profits slide amid punishing competition, the boom is somewhat remote. There are other examples, many of which will be cited in a series of issues.

Much the same holds true, of course, for the investment fraternity. An investor may find it highly interesting to learn that cash dividend payments by corporations rose during the first five months of this year, an increase of 15% from the corresponding period of 1955, which was a banner year. Still, it is small source of comfort if the investor owns shares in a company which has failed to keep in step with the parade.

Indeed, the investor, in estimating dividend prospects, would do well not to raise his expectations indiscriminately merely because the general dividend trend is upward. He would do well to limit himself to an exploration of dividend possibilities among those companies with a steadily widening margin of earnings over dividends and which have not yet taken action to raise their dividends. It also is wise, from the investment standpoint, to recognize that a minority still is in uncertain position, which can lead to unfavorable action.

In the second instalment of the series, appearing in this issue, we assay food and dairy-products processors, the tobacco industry, makers of soft drinks, beer and liquor, and the sugar companies. Each of these stories is accompanied by statistical tables and commentaries. Ratings, as usual, have been attached to each of the stocks.

As a further assist to the reader, there will be found, where it is warranted, a symbol indicating the issue is of a kind that should be retained for long-term investment or having above-average appreciation potential.

Remaining instalments will appear in successive issues.

Industries Featured in Mid-Year Forecast

— in six consecutive issues of The Magazine:

Railroads — Merchandising — Textiles — Food & Dairy — Sugar — Beverages — Tobacco — Rail, Elect., Farm, Office Equipments — Building — Machinery — Specialties — Steel — Auto & Tires — Accessories — Aircraft — Airlines — Bus & Truck — Shipping — Metals — Petroleum — Chemicals & Drugs — Paper.

PROCESSING FOOD: $68 Billion A Year and Headed Higher

By VERNON SAVAGE

In our year-ago survey of the food-processing companies we estimated that 1955 grocery sales would tote up to more than $65 billion. That figure was too conservative. The American people, reflecting a better and more variegated diet plus a population increase, actually took down a record $68 billion worth of food products last year. That was a fourfold rise from prewar 1939. This year's figure should top $70 billion.

The investor, noting this sharp upturn in the spending for food (even after allowing for higher prices and a growing populace), might properly ask why this upsurge. The answers are to be found in most of the households of this country.

Item: Self-service supermarkets offer many times as much items as the corner grocer of pre-World War II days.

Item: Personal income is at an all-time peak and people, in consequence, are eating better than ever.

Item: Retail prices of food have been relatively stable, aiding the brisk demand for the varied products which have continued to be abundant.

Item: Food processors, exploiting the desire of womenfolk to be free of the drudgery of cooking, have turned to "convenience" food items, including smartly packaged frozen foods, instant coffee and jiffy desserts.

The Race for Profits

These are but a few of the items that explain the enormous growth in business volume of the leading food processors. Unfortunately, from the investors' standpoint, this upsurge in the post-war trade of the food processors has not been accompanied by a parallel rise in their net profits. Profits have risen, to be sure, but largely through the sharp rise in the dollar volume that has marked the years since the war.

Thus, National Dairy Products Corp., kingpin of

Statistics on Leading Food Processors

	1st Quarter						Full Year						
	Net Sales 1955 (Millions)	Net Sales 1956 (Millions)	Net Profit 1955 %	Margin 1956 %	Net Per Share 1955	Net Per Share 1956	Earned Per Share 1954	Earned Per Share 1955	Dividend Per Share 1955	Dividend Per Share Indicated 1956	Price Range 1955-56	Recent Price	Indicated Div. Yield
AMERICAN BAKERIES .... W.C. (mil.) '54—$13.5 W.C. (mil.) '55—$15.8	n.a.	n.a.	......	......	$ .94[1]	$ .85[1]	$2.61	$3.22	$2.10	$2.10	36 -30⅞	32	6.5%
BEATRICE FOODS .... W.C. (mil.) '54—$28.9 W.C. (mil.) '55—$32.4	$ 76.4	$ 83.0	1.4%	1.5%	.79	.84	4.28	4.51	2.45	2.45	57 -45	51	4.8
BEECH-NUT PACKING .... W.C. (mil.) '54—$28.9 W.C. (mil.) '55—$30.4	n.a.	n.a.	......	......	.44	.71	2.20	2.45	1.20	1.60	34⅝-26½	31	5.2
BEST FOODS .... W.C. (mil.) '54—$24.8 W.C. (mil.) '55—$19.1	n.a.	n.a.	......	......	.83	1.24	3.29	3.28	3.00	3.00	56½-43	52	5.8
BORDEN CO. .... W.C. (mil.) '54—$119.4 W.C. (mil.) '55—$119.4	167.8	203.3	1.9	1.9	.77	.86	4.82	4.61	2.80	2.80	66⅜-58	59	4.8
CALIFORNIA PACKING.... W.C. (mil.) '54—$ 94.4 W.C. (mil.) '55—$105.3	n.a.	n.a.	......	......	......	......	4.19[5]	5.14[5]	1.72½	2.20	51⅞-33¾	46	4.8
CAMPBELL SOUP CO. ...... W.C. (mil.) '54—$127.2 W.C. (mil.) '55—$141.0	193.2[6]	228.4[6]	8.3	7.1	1.60	1.53	2.36	2.73	1.50	1.50	44⅝-37½	38	4.0
CONSOL. FOODS .... W.C. (mil.) '54—$37.5 W.C. (mil.) '55—$40.0	53.1	61.3	1.6	1.5	.54	.56	2.02	1.54	.91[9]	1.00	18½-14¼	17	5.9
CONTINENTAL BAKING.. W.C. (mil.) '54—$13.3 W.C. (mil.) '55—$19.9	54.1	65.7	2.6	1.8	.90	.71	3.64	4.76	1.77	2.00	36⅜-24⅝	31	6.5
CORN PRODUCTS REF. .... W.C. (mil.) '54—$48.2 W.C. (mil.) '55—$45.1	71.4	73.1	5.1	5.9	.40	.48	1.80	2.29	1.33	1.50	32⅜-26	29	5.2
CREAM OF WHEAT .... W.C. (mil.) '54—$4.6 W.C. (mil.) '55—$4.6	n.a.	n.a.	......	......	.53	.54	2.08	1.88	1.85	1.85	33 -28½	29	5.5
FOREMOST DAIRIES .... W.C. (mil.) '54—$37.5 W.C. (mil.) '55—$44.1	82.6	86.7	2.3	2.4	.27	.30	1.04	1.21	.75	1.00	26¾-15¾	17	5.9
GENERAL BAKING .... W.C. (mil.) '54—$7.1 W.C. (mil.) '55—$8.3	n.a.	n.a.	......	......	.11	.11	1.00	.92	.60	.60	11⅝- 9	9	6.7
GENERAL FOODS .... W.C. (mil.) '54—$195.5 W.C. (mil.) '55—$188.3	604.1[2]	664.0[2]	3.9	4.3	4.02[2]	4.86[2]	3.31	2.64	1.60	1.80	50½-43⅞	47	3.8

W.C.—Working capital. n.a.—Not available. d—deficit.

1—16 weeks ended April 21.
2—9 months ended Dec. 31.
3—6 months ended Nov. 30, 1954 and 1955.
4—6 months ended Oct. 27, 1954 and 1955.
5—Years ended Feb. 28, 1955 and 1956.
6—6 months ended Jan. 31, 1955 and 1956.
7—Years ended April 30, 1954 and 1955.
8—Years ended May 31, 1954 and 1955.
9—Adjusted for 10% stock dividend.

American Bakeries: The company has bettered its competitive position through the merger in 1953 with Purity Bakeries. Dividend is liberal and appears safe for this baker of bread and cake. C2

Beatrice Foods: Steadily increasing cost of producing milk has resulted in slim profit margin for this member of the big four in the dairy field. Ability to lift sales, notably non-dairy items, should afford modest gain in net. A2

Beech-Nut Packing: Company has reversed earnings downtrend and should benefit from merger with Life Savers. Dividend, cut in 1954, was raised this year. C

Best Foods: Fiscal year that ended June 30 probably will show record sales and improved net. Company is a leading producer of specialty foods, household fabric dyes and shoe polishes. Pays out nearly three-fourths of earnings to common shareholders. B2

Borden Co.: Aggressive management, highly diversified, it is rounding out 58 years of an unbroken dividend record. All-time record for sales in 1956 appears likely and moderate profits gain should be attained. A1*

California Packing: Stock dividend and increase in cash voted this year for this top packer of fruits and vegetables. Supplies of major canned fruits are in balance and some canned vegetables short, which add up to prospect of higher profit margins despite rising labor costs. B2

Campbell Soup: This 85-year old company came into public ownership less than two years ago. Leader of canned-soup business and, through an acquisition, has eminent position in fast-growing frozen foods. Company always has operated profitably. B2

Consolidated Foods: This canner, processor and distributor should be helped by acquisition of Midwest supermarket chain. Net profit now improving, but margin remains disappointingly low. C

Con'inental Baking: Sales improvement is due, in large measure, to acquisition of frozen-food line and other non-bread items. Price problems with new "frozen" line, however, did not help profits. Bread and cake business faring better than last year. Dividend liberal and well protected. B2

Corn Products Refining: Pre-eminent in research, company is outstanding in the industry. Plans to spend about $16 million this year for construction and modernization. Earnings for 1956 should surpass the good 1955 showing. A2

Cream of Wheat: Company has been hampered by high cost of the wheat products from which Cream of Wheat is made, as well as slight decrease in unit sales. This small but important cereal producer has long-time dividend record. B2

Foremost Dairies: Acquisition of scores of other dairy properties, on which company has been built, under Government scrutiny. As a result, speculative interest has diminished. B2

General Baking: Operates in areas that are highly competitive and hindered by high labor costs. Payroll costs account for about 41 cents of the sales dollar. Bread prices lag. Transportation costs also rising. D

General Foods: The stock split envisaged here last year has materialized. Research is topnotch and management is aggressive. New products playing ever greater role in rising fortunes of the company. A1*

RATINGS: (A)—High-grade investment quality. (B)—Good Grade. (C)—Speculative. (D)—Unattractive.
1—Above average appreciation potential at current market levels. 2—Retain for long-term investment. 3—Improving.
*—Most attractive of group based on current market price.

Statistics on Leading Food Processors—(Continued)

	1st Quarter						Full Year						
	Net Sales (Millions)		Net Profit Margins		Net Per Share		Earned Per Share		Dividend Per Share		Price Range	Recent	Indicated Div.
	1955	1956	1955 %	1956 %	1955	1956	1954	1955	1955	Indicated 1956	1955-56	Price	Yield
GENERAL MILLS W.C. (mil.) '54—$68.3 W.C. (mil.) '55—$67.9	$263.7[3]	$255.6[3]	2.1%	1.9%	$2.26[3]	$1.98[3]	$4.50	$5.02	$3.00	$3.00	71¾-61	67	4.5%
HEINZ, H. J. W.C. (mil.) '54—$77.3 W.C. (mil.) '55—$85.8	116.6[4]	128.7[4]	3.8	4.1	2.59[4]	3.10[4]	3.12[7]	5.02[7]	1.80	1.80	60½-39½	53	3.4
LIBBY McNEILL & LIBBY W.C. (mil.) '54—$46.8 W.C. (mil.) '55—$74.4	126.9[3]	145.3[3]	1.2	2.7	.35[3]	1.05[3]	1.15[8]	1.35[8]	.80	.80	23 -13¼	16	5.0
NATIONAL BISCUIT W.C. (mil.) '54—$53.8 W.C. (mil.) '55—$48.2	94.2	100.4	4.2	4.6	.56	.66	2.85	2.59	2.00	2.00	39½-37¼	38	5.3
NATIONAL DAIRY PROD. W.C. (mil.) '54—$166.6 W.C. (mil.) '55—$169.3	301.9	327.5	2.7	3.0	.63	.73	2.77	2.98	1.60	1.60	45¼-34⅝	40	4.0
PENICK & FORD W.C. (mil.) '54—$10.5 W.C. (mil.) '55—$12.7	n.a.	n.a.	......	......	1.16	1.33	4.47	5.41	3.00	3.00	54¾-44	49	6.1
PET MILK W.C. (mil.) '54—$19.2 W.C. (mil.) '55—$17.7	41.3	42.0	.004	.03	d .17	.09	5.04	4.50	2.00	2.00	73½-47½	48	4.2
PILLSBURY MILLS W.C. (mil.) '54—$44.2 W.C. (mil.) '55—$44.7	164.9[3]	165.4[3]	1.6	1.6	2.80[3]	2.84[3]	4.93	5.37	2.12½	2.50	61 -44¼	46	5.4
STANDARD BRANDS W.C. (mil.) '54—$87.3 W.C. (mil.) '55—$86.3	99.7	117.8	2.5	2.5	.71	.87	3.02	3.01	2.15	2.15	44⅛-35⅝	39	5.5
STOKELY-VAN CAMP. W.C. (mil.) '54—$31.6 W.C. (mil.) '55—$37.5	61.6[3]	64.6[3]	2.2	2.4	.85[3]	1.00[3]	1.93	2.06	.96	1.00	21 -15	19	5.3
SUNSHINE BISCUITS W.C. (mil.) '54—$27.1 W.C. (mil.) '55—$27.0	n.a.	n.a.	......	......	1.38	1.46	5.88	5.96	4.00	4.00	87½-69	72	5.5
UNITED BISCUIT W.C. (mil.) '54—$11.3 W.C. (mil.) '55—$14.0	n.a.	n.a.	......	......	.68	.75	1.45	3.30	1.00	1.40	33½-26⅞	28	5.0
WARD BAKING W.C. (mil.) '54—$9.6 W.C. (mil.) '55—$9.8	n.a.	n.a.	......	......	.03	d .09	1.54	1.53	1.25	1.00	24¾-15	15	6.7

W.C.—Working capital. n.a.—Not available. d—deficit.

1—16 weeks ended April 21.
2—9 months ended Dec. 31.
3—6 months ended Nov. 30, 1954 and 1955.
4—6 months ended Oct. 27, 1954 and 1955.
5—Years ended Feb. 28, 1955 and 1956.
6—6 months ended Jan. 31, 1955 and 1956.
7—Years ended April 30, 1954 and 1955.
8—Years ended May 31, 1954 and 1955.
9—Adjusted for 10% stock dividend.

General Mills: This kingpin of the flour millers is looking to non-food items to hike net profit margin, which has run about 3 cents per dollar of sales over the years. Splendid record of sustained earnings and dividends. A2

Heinz (H.J.) Co.: This producer of a broad line of food products promotes aggressively. Management is topnotch. Offers earnings stability and outstanding dividend record. Even better treatment overdue for shareholders. B2*

Libby, McNeill & Libby: Stockholders will be asked presently to approve increasing authorized common to 6 million from 4 million to provide for growth and expansion. Added stock is to be sold or used to acquire facilities. Recent growth of Libby has been at fast pace. C

National Biscuit: Unusual promotion costs attached to development of new products held down earnings last year. A substantial recovery is in prospect for 1956. Always makes money and pays liberal dividends. A2

National Dairy Products. This giant of the food-processing field also is the premier investment in the industry. It continues to improve from every important standpoint, with business at record level. A1*

Penick & Ford: Producer of "household name" products achieving steady growth. Corn refining still most important item, but "instant" products are growing in importance. Dividend is liberal and well covered. B2

Pet Milk: Company must look beyond milk to boost profit margin. Expansion into frozen foods should strengthen earnings base. Company has paid some dividend in each year since 1922. B

Pillsbury Mills: This second largest of the flour millers is beset by high costs and low profit margin. Prepared food mixes helping situation. Company offers earnings stability. Dividend boost of last year should be retained. A2

Standard Brands: Earning power should be boosted through recent acquisition of the corn-processing and other properties of Clinton Foods. Buying in anticipation of rising coffee prices also should help. Present dividend should be maintained this year. C

Stokely-Van Camp: Sales, earnings and profit margin rising for this major processor of canned and frozen foods. Line of "frozen" items expanded through recent acquisition. Effecting savings from consolidation of units. Prospects are promising. C

Sunshine Biscuits: Second only to National Biscuit in the cookie-cracker field, it has the advantage of no commitment to the low-profit bread field. Always shows a profit and dividend record is exceptionally good. Yield is liberal. Finances are strong. A2

United Biscuit: Company has come through a period of heavy rehabilitation expenses with an improved plant organization. Makes only cookies and crackers, aside from paperboard and cartons used by United and sold outside. Dividend was increased this year, still payout remains conservative. B2

Ward Baking: Company beset by rising labor costs and higher ingredient costs. Low earnings also reflect sales-promotion costs and expenses of moving into new territory. Dividend cover thin. D

RATINGS: (A)—High-grade investment quality. (B)—Good Grade. (C)—Speculative. (D)—Unattractive.
1—Above average appreciation potential at current market levels. 2—Retain for long-term investment. 3—Improving.
*—Most attractive of group based on current market price.

the industry, raised its volume last year to a record $1,260,230,000 and chalked up net of $40,347,000, another record. In 1946, sales amounted to $742,-409,000 and net profit was $25,444,000. And it is well to bear in mind that National Dairy has been outstanding in its ability to boost net. For most of the others it has been a case of having to move ahead at a mad clip for the mere sake of standing still.

National Biscuit is a case in point. Sales last year for the biggest of the bakers were a record $389,-626,000. That was scarcely sensational for Nabisco, which has been setting new sales tops yearly since 1950. Net profits are something else. They dipped last year to $18,277,000. Contrast that with the 1946 net of $19,600,000 on the relatively slender sales of $220,200,000. While it is true that the 1946 net included extraordinary income of $2.5 million, it is nevertheless a fact that corporate take-home pay here, as in many other food-processing companies, has scarcely kept pace with the rise in volume.

Problems of Processors

To a citizenry accustomed these past few years to reading about the drop in farm prices and intermittent charges that it is not fully reflected at the store counter because of profiteering, it may come as a surprise to learn that about two-thirds of the farm decline was passed along to consumers. The upward spiral of the cost of processing and distributing took the balance.

According to Government figures, farmers received, in 1952, $482 for the raw farm products entering the market basket. This figure declined last year to $400. In 1952, the consumer paid $1,035 for this basket and last year only $980. Hence, the consumer saved $55 of the $82 decline. The rest went for higher wages, taxes and transportation, which raised the costs of processing and distributing by $27.

Indeed, only by sharply increasing plant efficiency and equipment were the food processors able to keep the spread between what the farmer gets and the consumer pays from a steeper increase. Typically, Nabisco is going through a 10-year modernization program, in which it is not unusual for the company to spend on the order of $20 million in a year on capital assets. A single bakery, now underway in New Jersey, will cost $23 million. National Dairy, in the post-war decade, has invested in modernization and expansion of plants and equipment $310.6 million, adding 22 new manufacturing plants in the process.

Quest for Efficiency

Throughout the industry there is considerable optimism – a growing population (people must eat) and a rising standard of life are expected to bring $100 billion volume within a decade. But this enthusiasm is tempered by the knowledge that production costs are climbing. While sales gains are vital, they cannot alone preserve profits in the face of rising costs. Processors have to step up the productivity of their operations to balance out these rising costs. Stress is placed on better equipment and engineering methods designed to save time and money. Automation in the food plant is here and may be counted on to grow. National Dairy expects that its quest for efficiency will entail capital expenditures of $200 million over the next five years.

Looking Elsewhere for Profits

Not a few companies have looked beyond their own field for products that would hike the profit margin. A firm believer in diversification into non-food products is Harry A. Bullis, chairman of the board of General Mills, the top producer of flour for bakery and domestic use.

"The pyramid stands, the obelisk falls," reasons Mr. Bullis, whose company has reached out into alien fields. General Mills has looked for lusher pastures because over a quarter century it has succeeded in only one year in bringing down to net profit as much as a nickel out of the sales dollar. More often, it has been 2 cents. For the entire 25 years, net earnings per dollar of sales have averaged just a trifle above 3 cents.

General Mills has gone into such businesses as mechanical products, sponges, chemicals and home appliances. It has quit the home-appliance field because this activity would have required a greater investment than prospects appeared to justify. Meanwhile, the company struggles with a decline in sales, net and profit margin.

National Dairy also has long eyed a non-food business that offered good growth prospects. Its interest in acquiring a substantial stake in the chemical field was evidenced by its fruitless bid for Schering Corp. Borden, runner-up to National Dairy in the dairy products business, long has been a factor in chemicals, producing such things as adhesives, resins and industrial chemicals.

Beech-Nut Packing, which has been taking the bumps until lately, hopes to get diversification another way. It is merging with Life Savers Corp., a producer of a line of confections and cough tablets. Beech-Nut markets chewing gum, coffee, peanut butter and baby foods. Beech-Nut, in 1955, had sales of $91 million, down from the $93 million of 1954. Net last year totaled $3,747,000. Contrast this with net of $3,920,000 on sales of only $77,854,000 in 1951 and it will be seen that competition is fierce. Beech-Nut Life Savers, Inc. should contribute to efficiencies and strengthen the competitive position of both entities.

Varying Profit Margins

If no clear-cut pattern emerges on the score of profit margins in this industry, it must be borne in mind that the product mix is as varied as the appetites of the 168 million people the business serves. Bakers of cookies and crackers (Sunshine and you can include National, since its bread-baking is a small factor) invariably do better than the companies that are largely dependent on the staff of life. Cookies and crackers have long shelf life and can be shipped great distances, thus obviating the need for vast numbers of plants strategically situated for delivery. Bringing bread to the customer is like the newspaper business–your product must hit the street early and be fresh. Competition is bitter, not only among the giants but from local bakers. Companies such as General Baking and Ward Baking, which have a major stake in bread, have found the going rough. Even Continental Baking, leader of the bread (*Please turn to page* 556)

More Pleasure From The TOBACCO STOCKS

By WADE JOHNSON

It is a muggy day in July, 1955. A perspiring, sold-out bull strolling in the financial district of New York meets an old friend who labors in the investment-counseling vineyards. The sweating gentleman has a problem—all his money is tied up in cash. Duly sympathetic, the security analyst suggests tobacco stocks.

"But they have no friends," complains the money man.

"That's right," replies the other: "Only customers!"

In the year since THE MAGAZINE surveyed the industry (July 23, 1955) tobacco stocks have not run away. As a group, however, they have performed far better than average. As an example, American Tobacco has moved up to 78 from 68 and Reynolds Tobacco to 54 from 43. Both have raised the dividend, although the yield already was liberal. We cite American Tobacco and Reynolds because these emerged as the favorites in the survey.

Others Have Done Well, Too

While they have been oustanding, other have fared well, too. American Snuff has held its own, Bayuk Cigars has done better dividend-wise and shown no change from a price standpoint. General Cigar has done better by stockholders, although the shares have shown only nominal improvement. Liggett & Myers, the third-ranking cigarette manufacturer, has maintained its high payout, while the stock has registered a modest improvement. Philip Morris has retained its $3 dividend and the stock has risen to 46 from 40.

Smoking On the Rise

The tobacco people, by and large, have reason to be happy. With a single exception, they have improved their profit margin from a year ago. U. S. Tobacco, which already had the highest profit margin in the business, managed to hold its own on that score.

And the trend this year has been to greater sales and net profits. A notable exception is P. Lorillard, maker of Old Gold and Kent cigarettes. George W. Helme, a small, old-time snuff producer, showed no change in net.

When the investment counselor said the tobacco people had customers he was not merely making

conversation, however brief. He knew that equities in this field, especially among the cigarette manufacturers, had fallen from grace as a result of a long series of findings that sought to link smoking of cigarettes with lung cancer. While these studies are inconclusive (based in many instances on statistics), they have evoked fears—more among investors than smokers.

Indeed, smokers burned up 5% more cigarettes in April than they did in the like month of 1955. Manufacturers produced 4% more cigarettes during the month than a year earlier.

According to the Internal Revenue Service of the Government, which discloses such statistics, the tobacco people turned out 136.2 billion cigarettes in the first four months of this year, a 2% rise from the like period of 1955. Retail shipments amounted to 126.3 billion cigarettes, a climb of 4% from the year-ago period. Manufacturers pay Federal taxes on tobacco products when they ship from factories to retail outlets. This is considered to be one of the best guides to consumer (*Please turn to page* 552)

Position of Leading Tobacco Companies

	1st Quarter						Full Year						
	Net Sales		Net Profit Margin		Net Per Share		Earned Per Share		Dividend Per Share		Price Range	Recent	Div.
	1955	1956	1955	1956	1955	1956	1954	1955	1955	Indicated 1956	1955-56	Price	Yield
	(Millions)		%	%									
AMERICAN SNUFF W.C. (mil.) '54—$15.4 W.C. (mil.) '55—$16.0	n.a.	n.a.	......	......	$1.14	$1.36	$3.52	$3.95	$2.40	$2.80	46¾-42	45	6.2%
AMERICAN TOBACCO W.C. (mil.) '54—$550.4 W.C. (mil.) '55—$555.9	$248.7	$251.0	3.7%	4.5%	1.31	1.62	6.12	7.45	4.40	5.00	84¼-75⅛	78	6.4
BAYUK CIGARS W.C. (mil.) '54—$23.3 W.C. (mil.) '55—$24.6	7.8	8.7	1.8	2.2	.17	.24	1.03	1.65	.70	1.00	19⅛-16¼	17	5.9
CONSOL. CIGAR W.C. (mil.) '54—$25.6 W.C. (mil.) '55—$32.3	14.6	16.4	2.8	3.3	.97	1.03	4.35	5.04	1.20[1]	1.20	37 -30½	32	3.8
GENERAL CIGAR W.C. (mil.) '54—$29.0 W.C. (mil.) '55—$28.3	7.4	8.5	3.0	8.7	.28	.57	2.12	2.50	1.25	1.25	36¾-30½	32	3.9
HELME, G. W. W.C. (mil.) '54—$13.8 W.C. (mil.) '55—$13.6	n.a.	n.a.	......	......	.43	.43	1.72	1.79	1.60	1.70	26⅜-23⅞	25	6.8
LIGGETT & MYERS W.C. (mil.) '54—$330.1 W.C. (mil.) '55—$332.8	n.a.	n.a.	......	......	1.16	1.30	5.30	6.46	4.00	5.00	72⅜-65½	67	7.5
LORILLARD (P.) W.C. (mil.) '54—$108.8 W.C. (mil.) '55—$112.5	57.2	47.1	2.2	2.4	.39	.33	1.98	2.07	1.35	1.35	21⅛-18⅜	19	7.1
PHILIP MORRIS W.C. (mil.) '54—$141.0 W.C. (mil.) '55—$136.3	57.4	72.2	3.2	3.5	.55	.79	2.85	3.63	3.00	3.00	46⅝-43⅜	46	6.5
REYNOLDS TOB. "B" W.C. (mil.) '54—$429.1 W.C. (mil.) '55—$445.3	194.1	213.2	6.2	6.4	1.07	1.28	4.19	5.05	2.60	3.20	57¾-49⅝	54	5.9
U. S. TOBACCO W.C. (mil.) '54—$24.2 W.C. (mil.) '55—$24.1	6.8	6.9	9.1	9.1	.32	.33	1.26	1.42	1.20	1.20	19⅜-18½	19	6.3

W.C.—Working Capital. n.a.—Not available. [1]—Plus stock.

American Snuff: Earnings uptrend continues for this old-line producer of snuff and chewing tobacco. Has made some dividend payment in each year since 1903. B2

American Tobacco: This leader of the industry has an unexcelled record of dividends and earnings. Even with recent dividend hike, the payout remains on the moderate side. Should better the excellent showing of 1955. A1*

Bayuk Cigar: Sales, net profit margin in uptrend. Acquired two other cigar-makers in 1955 and now is interested in other properties, possibly outside its traditional field. Its Phillies is a leader in the low-priced cigar field and company is represented in every price category. C

Consolidated Cigar: Sales, net and profit margin rising for this kingpin of the cigar business. Acquisition of the Lorillard cigar line has solidified that position. Plenty of room here for a boost in dividend. Yield is lowest in the tobacco industry. B2*

General Cigar: This runner-up in the cigar trade has made outstanding progress since the decline sustained in 1954. Its Robert Burns and White Owl brands are among the most popular. Continuance of uptrend could mean better dividend treatment before yearend. C

Helme (G. W.): This third largest producer of snuff has been in the business 200 years. Finances are strong and earnings stable. Dividend record excellent and liberal. B2

Liggett & Myers: This third-ranking cigarette firm has reversed the downtrend in net. Its top brand, Chesterfield, has lost ground, however, and relative progress has lagged. The $5 annual payout should be retained, thus providing an unusually high yield. B2

Lorillard: Sales and earnings are in decline. Relative progress has been the poorest of the Big Five cigarette companies. Company long has adhered to a policy of paying out about three-quarters of earnings to holders. Has paid some dividend in each year since 1932. B

Philip Morris: Its new packages and the acquisition of Benson & Hedges line have resulted in a dramatic turnabout in the fortunes of this company. Sales, net and profit margin climbing. Strong finances enabled company to pay the $3 annual dividend even when it was not earned. B2*

Reynolds: With American Tobacco, it ranks as a prime investment equity of the industry. Sales and earnings are in uptrend. Profit margin is tops. The leadership of its Camel is in jeopardy owing to shrinking market for regular-size cigarettes, but its ability to bring forth the Winston filter-tip as an offset has kept earnings bounding ahead. A1*

U. S. Tobacco: Sales and earnings decline halted. Company is a leader in snuff field and denicotinized products. Strong finances point to retention of the liberal dividend. Stock is immobile. C

RATING: A—High-grade investment quality. B—Good Grade. C—Speculative but improving. D—Unattractive.
1—Above-average appreciation potential at current market levels.
2—Retain for long-term investment. *—Most attractive of group based on current market price.

1956 Outlook for Liquors—Beers—and Soft Drinks

By JOHN D. C. WELDON

I. The Liquor Industry

Up to now it hasn't developed the magnitude of a million candle-power beam, but there is a ray of light brightening the outlook for the distillers. This was first seen when the industry, upon computing 1955 operations, found that for the first time since 1946 sales, as measured by gallons, had touched the 200 million mark, about 11 million gallons better than in 1954, approximately 30 million gallons under 1946, still the high point in any year since repeal.

Undoubtedly, much of the sales gain in 1955, and that recorded in the first quarter of the current year, can be credited to the fast-growing acceptance of vodka, product diversification, including new lines of straight whiskies, particularly the lighter 86 proof straight whiskies that have increased in popularity, and stepped-up sales-promotion activities. Another factor that has contributed to higher sales has been the featuring of decanters and special wrapping for gift-giving.

The industry, however, has its problems, not the least of which is the inroads on legitimate sales by the products of the moonshiners, and sales resistance of many in the middle-income bracket because of the price the distiller has to charge to cover the present high excise tax. Because of this both moonshine operations and the Federal excise tax are interrelated, and the legal distillers may well ask what effect these have upon their yearly sales. It may come as a surprise to consumers who are careful to do their purchasing of distilled spirits only through legal outlets and to those who unwittingly purchase moonshine products, that the moonshine traffic has become "big" business, estimated at over a billion dollars a year. Federal officials in 1954 seized 11,943 illicit stills and state and local officials, operating independently of Federal representatives, are reported to have seized 10,970 stills producing moonshine. This total of close to 23,000 captures was made despite the fact that the combined seizures in 1953 was 20,009, indicating that with the seizure of one still another springs up to take its place, to continue production of illicit liquor at an estimated 70 million gallons a year. It does not require a mathematician to figure out that this much gallonage is depriving the Federal treasury of almost $1 billion annually.

Moonshine and Present Excise Tax

If this enormous illicit moonshine racket could be eliminated, the legitimate distilling industry might be content to (*Please turn to page* 559)

Statistical Data on Leading Soft Drink Companies

	Full Years: Net Sales 1954 (Millions)	Net Sales 1955 (Millions)	Net Profit 1954 %	Margin 1955 %	Net Per Share 1954	Net Per Share 1955	1st Quarter: Earned Per Share 1954	Earned Per Share 1955	Dividend Per Share 1955	Dividend Per Share Indcated 1956	Price Range 1955-56	Recent Price	Div. Yield %
CANADA DRY **W.C. (mil.) '54—$15.6** **W.C. (mil.) '55—$15.0**	$ 67.4[2]	$ 74.3[2]	3.5%	4.7%	$1.15	$1.72	$ .58[1]	$ .47[1]	$ .85	$1.00	17⅛- 14¼	15	6.7%
COCA-COLA **W.C. (mil.) '54—$94.7** **W.C. (mil.) '55—$99.8**	243.3	252.9	10.6	10.8	6.08	6.44	.96	1.05	5.00	5.00	145 - 111½	116	4.3
DR. PEPPER **W.C. (mil.) '54—$2.2** **W.C. (mil.) '55—$2.6**	10.9	n.a.	......	7.0	1.10	1.20	.13	.14	.60	.60	15¾- 11⅜	12	5.0
HIRES (CHAS. E.) **W.C. (mil.) '54—$3.7** **W.C. (mil.) '55—$3.8**	9.6[2]	10.1	3.6	3.9	.91	1.02	[d].39[1]	[d].55[1]	.60	.60	12½- 10½	11	5.5
NEHI CORP. **W.C. (mil.) '54—$4.3** **W.C. (mil.) '55—$4.3**	10.9	n.a.	10.1	......	1.07	1.27	.17	.20	.70	.80	16⅛- 13	15	5.3
PEPSI-COLA **W.C. (mil.) '54—$18.1** **W.C. (mil.) '55—$18.5**	74.2	n.a.	8.3	......	1.07	1.60	.20	.25	1.00	1.15	26¼- 17⅞	24	4.8

W.C.—Working capital.
n.a.—Not available.

1—6 months ended March 31.
2—Fiscal years ended Sept. 30.
d—deficit.

Statistical Data on Leading Distillers

	Full Years: Net Sales 1954 (Millions)	Net Sales 1955 (Millions)	Net Profit 1954 %	Margin 1955 %	Net Per Share 1955	Net Per Share 1956	1st Quarter: Earned Per Share 1954	Earned Per Share 1955	Dividend Per Share 1955	Dividend Per Share Indcated 1956	Price Range 1955-56	Recent Price	Div. Yield %
AMERICAN DISTILLING **W.C. (mil.) '54—$12.5** **W.C. (mil.) '55—$19.0**	$ 68.4[3]	$ 65.8[3]	1.0%	1.7%	$3.12	$5.06	$1.42[1]	$1.60[1]	$1.00[2]	$1.20[2]	28⅛- 22	27	4.4%
BROWN FOR. DIST. **W.C. (mil.) '54—$34.4** **W.C. (mil.) '55—$34.5**	73.6	70.8	3.9	3.7	2.70	2.46	1.20[4]	2.81[4]	.80	.80	21½- 16	19	4.2
DIST. CORP.-SEAGRAMS **W.C. (mil.) '54—$329.6** **W.C. (mil.) '55—$323.8**	752.7[5]	735.7[5]	4.7	4.2	4.09	3.54	2.72[6]	2.87[6]	1.70	1.70	49 - 30⅜	35	4.9
NATIONAL DISTILLERS **W.C. (mil.) '54—$204.1** **W.C. (mil.) '55—$215.6**	487.3	500.2	2.8	3.1	1.38	1.60	.34	.54	1.00	1.00	27 - 19	25	4.0
PUBLICKER INDUSTRIES **W.C. (mil.) '54—$91.6** **W.C. (mil.) '55—$81.9**	153.1	146.5	[d]1.5	[d]1.2	[d].86	[d].65	[d].22	.02	......[7]	......	12¾- 8¾	9	......
SCHENLEY INDUST. **W.C. (mil.) '54—$293.9** **W.C. (mil.) '55—$273.7**	409.9[8]	411.7[8]	.9	1.5	.87	1.40	.68[9]	.25[9]	1.00	1.00	27⅜- 18	20	5.0
H. WALKER-GDHM. & W. **W.C. (mil.) '54—$127.1** **W.C. (mil.) '55—$138.3**	339.3[8]	341.3[8]	5.9	5.6	7.02	6.70	3.56[9]	3.83[9]	4.00	4.00	81¼- 66	70	5.7

W.C.—Working capital.
d—deficit.
1—6 months ended March 31.
2—Adjusted for 2 for 1 stock split in April 1956.
3—Fiscal years ended Sept. 30.
4—6 months ended Oct. 31, 1954 and 1955.
5—Fiscal years ended July 31.
6—9 months ended April 30.
7—5% Stock dividend paid in Sept. 1955.
8—Fiscal years ended August 31.
9—6 months ended Feb. 28.

SOFT DRINKS

Canada Dry Ginger Ale: One of the most progressive of the soft drink manufacturers in domestic and foreign markets. Current income return and long-term growth prospects warrant share retention. C1

Coca-Cola: Should continue to benefit from established markets, introduction of multiple-size bottles and vending machine sales. Retain for yield and growth potential. B2

Dr. Pepper: Aggressive sales promotion reflected in sales uptrend, presaging further earnings gain. Present 15-cent quarterly dividend should be maintained. C

Hires (Charles E.) Co.: Broadening national coverage by new plants and increased number of licensed bottlers. Favorable seasonal weather expected to produce income sufficient to meet dividend needs. D

Nehi Corp.: Continuing earnings uptrend, indicating 1956 net income above last year's $1.25 a share. Has increased quarterly dividends to 20 cents. C

Pepsi-Cola: Expanding sales through new world-wide production facilities, close cooperation with bottlers and development of new sales outlets. C1

DISTILLERS

American Distillers: Earnings for fiscal year ending September 30 should make favorable comparison with last year's $2.53 a share, adjusted for 100% stock dividend last April. Current $1.20 annual dividend rate could be supplemented by moderate extra. C

Brown-Forman Distillers: Estimate earnings for fiscal year ended last April to have bettered fiscal 1955 net of $2.46 a share. Will also show $1.45 a share non-recurring income. Shareowners will vote July 24 on stock increase paving way for 15% stock dividend. C2

Distillers Corp.—Seagrams: Net income for fiscal year ending July 31, expected to match $3.54 a share shown for last year. Will probably supplement 30-cent quarterly dividends with another 50-cent year-end extra. B2

National Distillers Products: Benefitting from demand for straight whiskies of which it is a leading producer. Gains also noted in its chemical division which should bring current year's earnings above $1.60 a share for 1955. C2

Publicker Industries: Converted 1955 first quarter deficit of 22 cents a share into net income of two cents a share for common stock. Further improvement possible but issues remain highly speculative. D

Schenley Industries: Current fiscal year's earnings likely to fall below fiscal 1955's $1.40 a share. Favorable decision in its tax suit would be of great importance. C

Walker (Hiram)—Gooderham & Worts: Continues to maintain its strong position and extend its outstanding earnings record with fiscal 1956 net showing improvement over previous year's $6.70 a share. Could readily increase present 75 cent quarterly payments or pay liberal extra. B2

RATINGS: (A)—High-grade investment quality. (B)—Good Grade. (C)—Speculative. (D)—Unattractve.
1—Above average appreciation potential at current market levels. 2—Retain for long-term investment. 3—Improving.
*—Most attractive of group at current market price.

Varying Prospects for Sugar Companies

By JEROME SCHULTZ

The world sugar situation continues to be complex.

Since the debacle of 1952 when Cuban production hit an all-time high at 7.9 million short tons, that country, by Government decree, has restricted sugar cane acreage, the 1956 limitation being set to allow production of 5,224,680 short tons. Upon completion of grinding by the Cuban mills last month, output approximated 5,223,295 tons. As a result, aided by a sharp rise in sales for local consumption and increased exports to the United States and other countries, the sugar statistical position for Cuba at mid-June of this year showed material improvement, stock on hand amounting to 4,042,015, as compared with 4,630,353 short tons at mid-June, 1955, a decline of 588,338 short tons.

This relatively strong position is in contrast to that of four years ago. Then it was necessary to set up a stabilization reserve into which was put a little more than 1.7 million short tons for marketing, if possible, over a period of five years. Thus, the Cuban sugar industry has made another step in overcoming the crisis with which it was confronted in 1952.

There's Too Much Production

Now that the industry in the island republic appears to be more stabilized, the immediate outlook for materially improved earnings has not brightened appreciably. Although the Cuban producers will continue to benefit from shipments to the United States under the Sugar Act of 1948, as amended, and slightly better current prices for blackstrap molasses, they are faced with competition in other world markets. There is still too much world production. While the International Sugar Council has achieved much in the way of stabilizing world prices, there is not much more it can do along these lines until all the sugar-exporting countries that have refused or failed to become signatories to the agreement, come into the fold. Under the present set-up all that the ISC can do is continue its efforts to stabilize world free-market prices at equitable levels through its quota system which, of course, applies to subscribing nations only.

Some Complaints Being Heard

At that, all is not serene among member countries. Several of them are asking for increased quotas, threatening to withdraw if their requests are not granted. Others, fearing they might be asked to take reductions in their former quotas, also insinuate they might pull out. Complicating the situation still further are complaints by some countries that depend upon imports for (*Please turn to page* 562)

Statistical Summary of Sugar Companies

	Net Sales Fiscal 1954 (Millions)	Net Sales Fiscal 1955	Net Profit Margin Fiscal 1954	Net Profit Margin Fiscal 1955	Earned Per Share Fiscal 1954	Earned Per Share Fiscal 1955	Dividend Per Share 1955	Dividend Per Share Indicated 1956	Price Range 1955-1956	Recent Price	Div. Yield
CUBAN-DOMINICAN PRODUCERS											
CUBAN AMER. SUGAR W.C. (mil.) '54—$14.8 W.C. (mil.) '55—$14.6	$ 50.0[1]	$ 41.0[1]	1.3%	2.4%	$ .77	$ 1.18	$ .80	$ .80	18⅝-13⅜	16	5.0%
CUBAN ATLANTIC SUGAR W.C. (mil.) '54—$24.4 W.C. (mil.) '55—$26.2	60.4[1]	67.2[1]	4.4	4.6	1.33	1.54	.65	1.00	18½- 9⅜	18	5.6
FRANCISCO SUGAR W.C. (mil.) '54—$1.1 W.C. (mil.) '55—$1.4	10.8[3]	1[illegible].0[3]	[d]2.3	3.2	[d].73	.99	.25	......	12½- 7¾	9	......
MANATI SUGAR W.C. (mil.) '54—$3.0 W.C. (mil.) '55—$3.0	9.9[3]	9.5[3]	.3	1.2	.07	.25	......	......	8½- 4⅞	5	......
VERTIENTES CAMAGUEY W.C. (mil.) '54—$6.4 W.C. (mil.) '55—$7.6	17.2[1]	16.3[1]	2.4	6.3	.27	.71	.71	......	10⅛- 6¼	8	......
WEST INDIES SUGAR W.C. (mil.) '54—$29.7 W.C. (mil.) '55—$29.0	30.2[1]	29.0[1]	[d]1.1	5.0	[d].34	1.41	1.00	1.00	25⅜-20	23	4.3
PUERTO RICAN PRODUCERS											
CENTRAL AGUIRRE SUGAR W.C. (mil.) '54—$8.0 W.C. (mil.) '55—$7.3	14.8[2]	13.6[2]	8.3	6.6	1.65	1.21	1.60	1.40	22 -17	17	8.2
FAJARDO SUGAR W.C. (mil.) '54—$4.2 W.C. (mil.) '55—$4.1	14.2[2]	13.9[2]	3.1	1.5	1.24	.58	1.00	1.00	18¼-12½	13	7.7
SOUTH P. R. SUGAR W.C. (mil.) '54—$13.6 W.C. (mil.) '55—$11.4	30.9[1]	28.5[1]	5.9	8.5	1.54[7]	2.[illegible]9	1.00[8]	1.60	37⅝-24¾	26	6.2[9]
BEET SUGAR REFINERS											
AMERICAN CRYSTAL SUGAR W.C. (mil.) '54—$17.0 W.C. (mil.) '55—$18.2	42.8[5]	46.4[5]	2.8	3.3	2.62	3.45	1.20	1.20	34 -27⅛	30	4.0
GREAT WESTERN SUGAR W.C. (mil.) '54—$35.5 W.C. (mil.) '55—$36.0	74.5[4]	75.0[4]	5.7	5.3	1.78	1.62	1.45	1.45	24⅜-20½	21	6.9
HOLLY SUGAR W.C. (mil.) '54—$13.1 W.C. (mil.) '55—$13.0	55.5[5]	5[illegible].1[5]	3.9	3.4	3.10	2.47	1.20	1.20	25⅝-19⅜	20	6.0
LEADING CANE REFINERS											
AMERICAN SUGAR REFINING W.C. (mil.) '54—$38.7 W.C. (mil.) '55—$37.8	308.8	325.8	2.4	2.6	10.02	11.59	4.75	6.00	108 -64½	90	6.7
NATIONAL SUGAR REFINING W.C. (mil.) '54—$13.3 W.C. (mil.) '55—$13.0	140.7	144.8	1.6	1.3	3.96	3.25	2.50	2.50	42½-33½	36	7.0

W.C.—Working capital.
d—deficit.
1—Fiscal years ended Sept. 30.
2—Fiscal years ended July 31.
3—Fiscal years ended Oct. 31.
4—Fiscal years ended Feb. 28.
5—Fiscal years ended March 31.
6—Fiscal years ended June 30.
7—Adjusted for 25% stock dividend paid Jan. 1955.
8—Plus 25% in stock.
9—Based on cash payments only.

CUBAN-DOMINICAN PRODUCERS

Cuban American Sugar: Fiscal 1956 earnings expected to show moderate gain over last year's $1.18 a common share. Has purchased substantial amount of stock of American Crystal Sugar which the latter is contesting by court action. Dividend liberal in relation to earnings. D

Francisco Sugar: Has volatile earnings record. Fiscal 1956 earnings may duplicate 99 cents a share shown for previous year. Paid a 25-cent dividend last December. D

Guantanamo Sugar: A marginal operator. Slightly greater sugar crop and improved profit margin on blackstrap should be reflected in silght improvement over fiscal 1955's 29 cents a share. D

Manati Sugar: Slight improvement expected for this medium-size Cuban producer which earned 25 cents a share last year. Dividend prospects, however, appear remote. D

Vertientes-Camaguey: Earned 71 cents a share in fiscal 1955 which it distributed in full as a dividend last December. Moderate earnings gain looked for in fiscal 1956 ending next Sept. 30. D

West Indies Sugar: Operates in both the Cuban and Dominican Republic sugar industries. Expected to better last year's $1.41 a share net earnings in fiscal 1956 ending next Sept. 30. Although 25-cent quarterly dividend appears secure, the stock is not suitable for the average investor. D

PUERTO RICAN PRODUCERS

Central Aguirre Sugar: Further gains in operating efficiency through mechanization should hold fiscal 1956 earnings for this integrated company close to last year's $1.21 a share despite indicated lower sucrose yield from cane. Current 35-cent quarterly dividend represents a reduction from 40-cent rate paid last year. C

Fajardo Sugar: One of the largest of the Puerto Rican producers. Is improving mill operating efficiency to offset higher labor costs and expected to maintain fiscal 1956 net income at last year's level of 58 cents a share. Long-range outlet warrants share retention. C

South Puerto Rico Sugar: Continues to benefit from Puerto Rican operations, but Dominican Republic activities detract somewhat because of relatively low world prices for output of the latter country. Nevertheless, net earnings for current fiscal year expected to gain moderately over last year's $2.19 a share. Present dividend rate appears secure. C

BEET SUGAR REFINERS

American Crystal Sugar: More favorable sugar beet weather and continuation of price stability should result in improved earnings for current fiscal year. Dividends of 30 cents quarterly are at a modest rate in relation to earnings. C3

Great Western Sugar: Indications of larger beet harvest should be reflected in earnings improvement over the $1.62 a share shown for 1955. Dividends of 25 cents quarterly should be maintained. C

Holly Sugar: Should also benefit from more favorable sugar beet growing weather, as well as from higher quota for 1956. Likely to better earnings of $2.47 a share reported last year. The 30-cent quarterly dividend appears secure. C

LEADING CANE SUGAR REFINERS

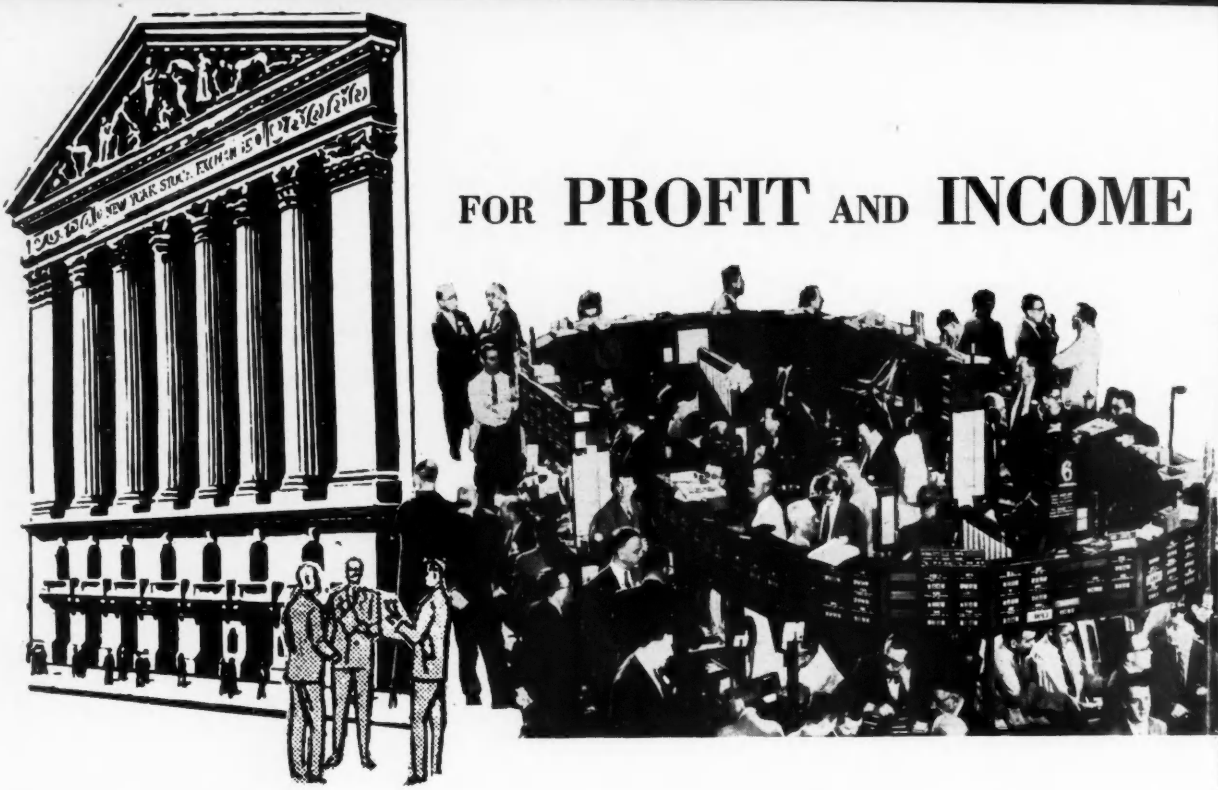
American Sugar: Had record sales in 1955 and earned $11.59 a common share, as compared with $10.02 a share shown for 1954. Non-recurrence of 1955 "Windfall" business may result in moderate dip in 1956 net income which, however, should better the 1954 showing. Could again increase regular dividend or liberalize year-end extra. B

National Sugar: Improved profit margins should have effect on current years earnings, bettering last year's $3.25 a share. Addition of Godchaux refinery in Louisiana expected to prove an important acquisition. Current dividend secure. B

RATING: A—High-grade inves'ment quality. B—Good Grade. C—Speculative. D—Unattracive.

1—Above average appreciation potential at current market levels.
2—Retain for long-term investment. 3—Speculative, but improving.
***—Most attractive of group at current market price.**

FOR PROFIT AND INCOME



Jackpot

For readers who followed the advices, we hit a jackpot here with repeated recommendations—starting at much lower levels—of McGraw-Hill. This is a banner year for the company and the stock. Earnings may well reach some $9 a share, against 1955's record $7.14. With the June 21 payment the regular quarterly dividend was raised to 80 cents, from 70 cents previously. A few days later the management proposed a 3-for-1 split, to be approved by stockholders at a July 24 meeting, and stated that dividends on the new shares would start at 30 cents quarterly, equal to 90 cents on the present stock, making two boosts this year. The company has for some years been paying out close to half of earnings, and has been a consistent payer of yearend extras. This year's extra probably will bring 1956 payments to the equivalent of $4 to $4.50 on the present stock, against 1955's $3.40. We stated not long ago that a split seemed likely some time this year. The stock ran up to 109 on the news, making a gain of over 45% since the start of 1956, of about 320% from its September, 1953, low, and of some 800% from its mid-1949 low. It is currently around 104. What now? A heavy concentration of good news is out of the way. The stock may well be slow for some time to come. We would not argue against profit-taking by those who bought it on a speculative-investment basis; but those willing to take a patient long-pull investment view should stay with it. The company's long-range outlook remains promising and the stock still is not extremely priced around 11.6 times likely 1956 earnings, yielding roughly 4% to 4.5% on probable 1956 dividends.

Others

Stock splits hinge generally—despite some exceptions—on a relatively high market price and on the "leanings" of management. If a company is thriving, and if its stock is in the general vicinity of a price level at which it was split in one or more past instances, there is a good possibility, even though no certainty, that another split will be proposed in no great time. Based on these criteria, here are a few of the more logical "candidates" for splits or large stock dividends equivalent to splits: National Lead, Aluminum Company of America, Gulf Oil, International Paper and Shell Oil.

Favorites

Two stocks which have long been "favorites" of this department are Halliburton and Outboard, Marine. Both are perform-

INCREASES SHOWN IN RECENT EARNINGS REPORTS

		1956	1955
Eagle-Picher Co.	6 mos. May 31	$3.65	$2.11
Eastman Kodak Co.	12 weeks March 18	.93	.84
General Telephone Corp.	5 mos. May 31	1.21	.95
U. S. Shoe Corp.	6 mos. May 31	1.09	.93
Wesson Oil & Snowdrift	9 mos. June 2	1.91	1.79
Champion Paper & Fiber	Year March 31	5.74	4.42
Foote Bros. Gear & Machine	28 weeks May 12	1.11	1.09
International Shoe Co.	6 mos. May 31	1.63	1.51
Pennsylvania Power & Light	12 mos. May 31	3.30	3.06
Shamrock Oil & Gas	6 mos. May 31	2.05	1.73

ing satisfactorily. They remain worth holding. We see no reason to reach for them, or for other growth stocks which have had large advances, under present market conditions. They can react. Halliburton has just raised its quarterly dividend to 60 cents, from 50 cents previously. Outboard's 40-cent quarterly rate should soon go higher.

Dividends

As noted heretofore, the uptrend in total corporate earnings and dividends shows marked flattening-out tendencies. This is reflected in the "box score" of dividend changes in June. There were 55 instances of increased payments in the month, against 70 a year ago, and 80 extras paid, against 108 in June, 1955. On the other hand, fewer dividends were omitted or reduced in June than a year ago. Though the picture is much less dynamic, good dividend news continues to outweigh the bad by a decisive margin.

Strong

Stocks reflecting considerably better than average demand at this writing include National Lead, Gulf Oil, Alcoa, Aluminium, Kaiser Aluminum, National Dairy Products, Grace, International Nickel, Minneapolis-Honeywell, Owens-Corning Fiberglas, Panhandle Eastern Pipe Line, Merck, Pfizer, Burroughs Corp., Firestone, Joy, Dow Chemical, Dresser Industries, Norfolk & Western and Public Service of Colorado.

Soft

But more stocks are on the soft side. Here is a partial list: Adams Millis, Avco, Emerson Radio, Harshaw Chemical, Mercantile Stores, Murphy, Seaboard Air Line, Underwood, Ward Baking, Bond Stores, Duplan, Florence Stove, Homestake Mining, National Auto Fibres, Ohio Match, Standard Brands, Coca-Cola, Congoleum, Dan River Mills, Natomas, Reeves Bros. and Penn-Texas Corp.

Mergers

There has been a record number of mergers in recent years. In numerous instances companies following a policy of aggressive acquisitions and diversification have radically changed the character of their original operations. In some instances, such a policy has paid off in higher earnings, with the advantage of booming business conditions. In other instances, despite favorable general conditions, earnings are lower now than they were in 1953. Some of these mushrooming combines of numerous subsidiaries or divisions have yet to be shaken down to efficient operation—and all have yet to be tested under more adverse business conditions than we have yet seen in the postwar era. On average, where the changes in operations have been drastic, results to date have not been too impressive in earnings or market performance of the stocks. In some instances, even where earnings have been improved, the market has remained "suspicious" of longer-range potentials, thus capitalizing earnings modestly. At this late stage of the business boom, a somewhat skeptical attitude toward companies with sharply changed "complexions" would seem to be in order.

Examples

Among companies changed sharply in scope and character of operations, here are some cases in which 1955 per-share earnings were lower than in 1953, and in which the stocks have not done as well as the industrial list since 1953: American Machine & Foundry, Merritt-Chapman & Scott (holding company for the assorted Wolfson interests) and Penn-Texas Corp. Here are some in which results have been good to date both in earnings and relative market performance: General Tire, Textron and U. S. Hoffman Machinery. And here are some where earnings power has gained, but the stocks have lagged behind the market: Glen Alden, Grace, Olin Mathieson, Stanley Warner, U. S. Industries (lag behind the market slight) and Westinghouse Air Brake.

Non-Recurrent

The market puts little value on non-recurrent earnings, regardless of how they are derived. So when you look at a reported profit figure per share, be sure to note how much is more or less "regular" and how much, if any, is abnormal. For instance, United Shoe Machinery earned $7.92 a share in the fiscal year ended February 28, against only $2.93 in the prior year; but, of the profit, $4.15 a share was accounted for by capital gains on sales of machines previously leased to customers. The stock reached a high of 61⅝ early this year. It was materially lower by the time the report was issued, and now is around 47.

Taxes

A number of companies have tax credits, or available capital losses, which make present earnings exempt from Federal tax liability. In some instances, this exemption probably will continue for several years. However, the market figures that tax-free earnings are temporary and values them accordingly. With no present Federal tax obligation, for example, New York Central may net around $7.50 a share this year. At 37, or around five times that figure, the stock "looks cheap." But the market figures that "real" 1956 earnings are what they would be were taxes being accrued—or roughly $3.75 a share—and the stock is priced around 10 times that figure. The rapidly expanding Textron is a similar situation. Profit might reach a tax-free $4.50 a share or so this year. At 22½, the stock is priced at five times that figure, but around 10 times what earnings would be on a taxable basis. When you examine earnings, see if there is any non-permanent tax "gimmick" involved.

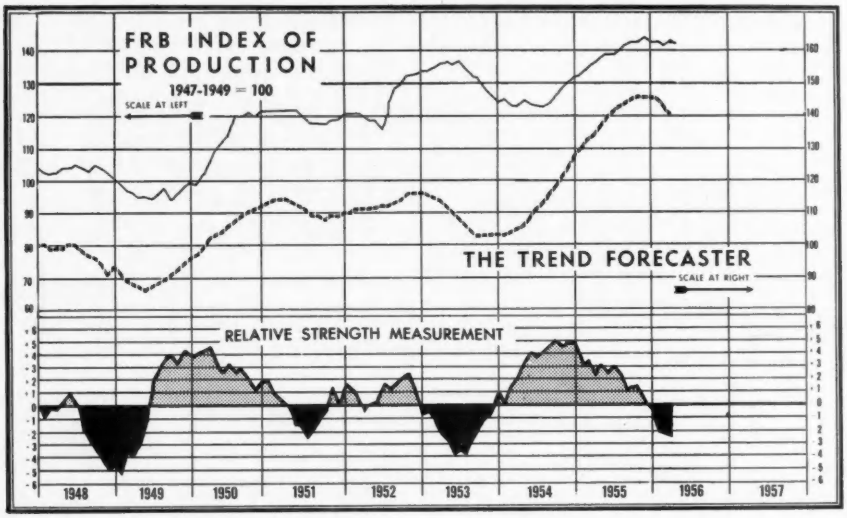
DECREASES SHOWN IN RECENT EARNINGS REPORTS

		1956	1955
Murray Corp. of America	9 mos. May 31	$1.93	$3.61
Pacific Tel. & Tel.	6 mos. May 31	4.99	5.06
Southwestern Public Service	12 mos. May 31	1.52	1.58
Avco Mfg. Co.	6 mos. May 31	d.01	.03
New Orleans Public Service	12 mos. May 31	2.53	2.66
Bates Mfg. Co.	12 weeks June 18	.30	.37
Western Union Telegraph	5 mos. May 31	.89	.99
Wyandotte Worsted	3 mos. May 31	.25	.28
Kelsey-Hayes Wheel Co.	9 mos. May 31	3.72	4.11
Northrop Aircraft	9 mos. April 30	2.98	6.05

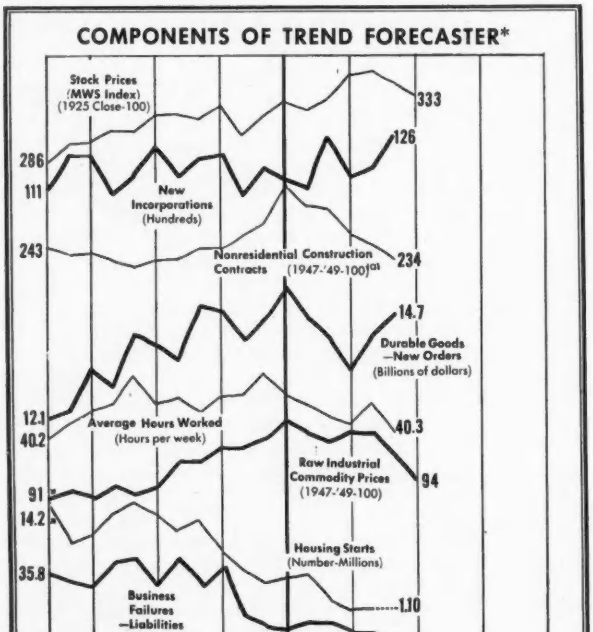
d—deficit.

the Business

Business Trend Forecaster



With the many revolutionary changes in our economy, it must be clear that various indicators previously used should be dropped and new ones substituted, in order to more accurately forecast developing business trends. Therefore you will be greatly interested in the newly devised **Trend Forecaster,** developed over a period of several years, which employs those indicators which we have found to most accurately foreshadow coming trends in business.



*—Seasonally adjusted except stock and commodity prices.
(a)—3 month moving average.

We use the indicators (Components of Trend Forecaster) which are in this class and have been selected by us as the basis for the **Trend Forecaster** above. When the **Forecaster** changes its direction up or down a corresponding change in our economy may be expected several months later.

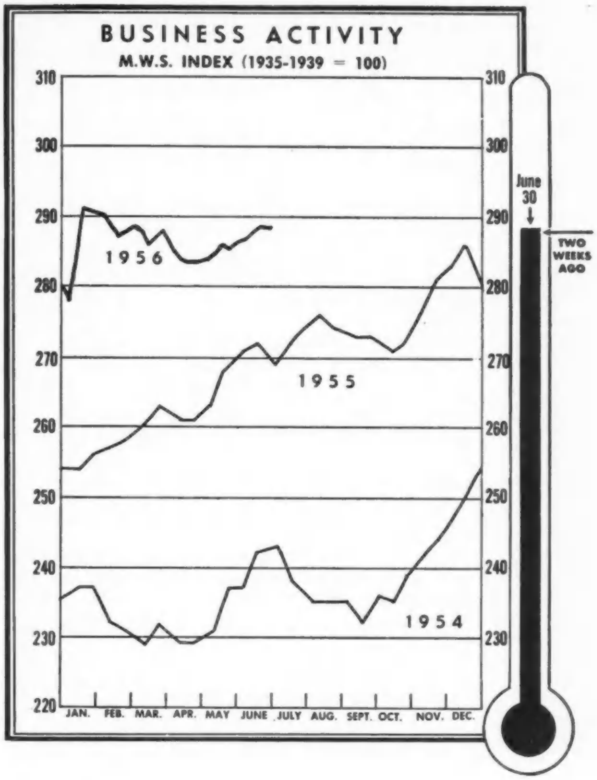
The depth or height of the developing trend is importantly presented in our RELATIVE STRENGTH MEASUREMENT line, which reflects the rate of expansion or contraction in the making. When particularly favorable indications cause a rise that exceeds plus 3 for a period of time, a strong advance in general business is to be expected. On the other hand, penetration of minus 3 on the down side precedes an important contraction in our economy.

We believe that subscribers will find our new Business Trend Forecaster of increasing usefulness both from the investment and business standpoints.

Current Indications of the Forecaster

Reviewing the recent indications of **The Trend Forecaster,** it will be noted that a downturn started in January of this year, indicating business weakness by Spring. The lag in the economy arrived on schedule but thus far has been little more than a rolling adjustment. The fact that the Relative Strength Measure has not yet reached minus 3 has provided an important indication that the initial contraction would be moderate. As the **Forecaster** and Strength Measure furnish additional signals during coming months, we should receive adequate advance notice as to whether a more serious contraction is in the offing or whether resumption of a business advance is to be expected.

Analyst



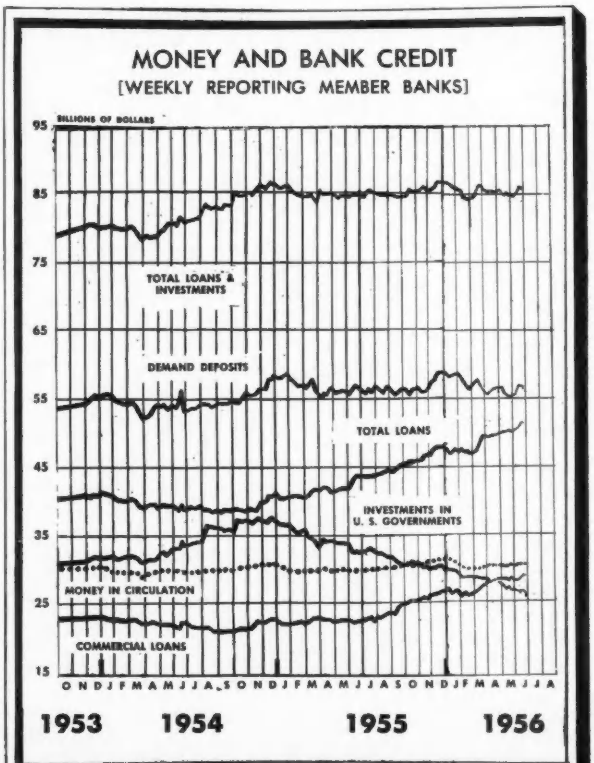
CONCLUSIONS IN BRIEF

INDUSTRY — Steel strike responsible for current sharp drop in industrial output and concomitant inventory cuts. Automatic rebound after settlement may still leave problem of lagging demand for consumer hard goods.

TRADE — Over-all retail dollar volume expands in May to top 1955 month by 3%. Autos experience no more than seasonal pickup while total sales of durables fail to match year-ago levels.

MONEY & CREDIT — Ease in short-term credit to continue as declining inventories reduce demand for bank loans. Federal Reserve seen following middle-of-road policy.

COMMODITIES — Sensitive commodities remain in doldrums despite talk of inflationary pressures. Nonferrous metal prices continue in downtrend.



Although the financial markets seem to be viewing the steel strike with equanimity, and even in some cases with enthusiasm, yet the thoughtful analyst of **Business Conditions** will note that the walkout may not be the panacea for all our problems that some seem to regard it. The optimistic viewpoint is based on the opinion that the stoppage holds promise of a sharp reduction in burdensome inventories and a reinvigoration of urgent demand from those who will soon find themselves faced with shortages of the vital commodity. Reawakening of inflationary pressures is also promised and reference to the 1952 steel walkout and the sharp ensuing recovery is offered as a model for the current situation.

The optimistic contingent, however, is losing sight of some fundamental facts in taking this facile view of conditions. The current resemblance to 1952 developments is surely a superficial one. Imbalances exist today that were not present in a 1952 economy invigorated by the needs of the Korean war. At present we are suffering from a seriously swollen debt structure, a saturation of consumer demand in many fields and a top-heavy inventory situation. Although a moderately drawn-out strike would reduce stocks in some fields and might cause some piling up of demand, it is doubtful that the impetus to expansion provided by these factors would long endure. Furthermore, the immediate effects of the stoppage can soon adversely affect the vital field of capital spending and pose problems in the form of growing numbers *(Please turn to following page)*

Essential Statistics

THE MONTHLY TREND	Unit	Month	Latest Month	Previous Month	Year Ago
INDUSTRIAL PRODUCTION*	1947-'9-100	May	142	143	138
Durable Goods Mfr.	1947-'9-100	May	158	160	153
Nondurable Goods Mfr.	1947-'9-100	May	129	129	127
Mining	1947-'9-100	May	129	129	121
RETAIL SALES*	$ Billions	May	15.9	15.5	15.4
Durable Goods	$ Billions	May	5.4	5.3	5.5
Nondurable Goods	$ Billions	May	10.5	10.2	9.9
Dep't Store Sales	1947-'9-100	May	122	122	117
MANUFACTURERS'					
New Orders—Total*	$ Billions	May	28.7	27.8	27.7
Durable Goods	$ Billions	May	14.7	14.1	14.3
Nondurable Goods	$ Billions	May	14.0	13.7	13.4
Shipments*	$ Billions	May	27.7	27.2	26.7
Durable Goods	$ Billions	May	13.8	13.5	13.3
Nondurable Goods	$ Billions	May	13.9	13.7	13.3
BUSINESS INVENTORIES, END MO.*	$ Billions	May	85.2	84.5	78.3
Manufacturers'	$ Billions	May	48.6	48.0	43.5
Wholesalers'	$ Billions	May	12.7	12.6	11.8
Retailers'	$ Billions	May	23.9	23.9	23.0
Dept. Store Stocks	1947-'9-100	May	134	136	124
CONSTRUCTION, TOTAL	$ Billions	May	3.7	3.4	3.7
Private	$ Billions	May	2.5	2.4	2.6
Residential	$ Billions	May	1.3	1.2	1.4
Nonresidential	$ Billions	May	0.7	0.7	0.6
Housing Starts*—a	Thousands	May	1,110	1,110	1,398
Contract Awards, Residential—b	$ Thousands	May	1,129	1,144	1,011
All Other—b	$ Thousands	May	1,351	1,277	1,174
EMPLOYMENT					
Total Civilian	Millions	May	65.2	64.0	62.7
Non-Farm	Millions	May	51.0	50.8	48.9
Government	Millions	May	7.1	7.1	6.9
Trade	Millions	May	11.0	10.9	10.5
Factory	Millions	May	13.0	13.1	12.9
Hours Worked	Hours	May	40.0	40.3	40.8
Hourly Earnings	Dollars	May	1.96	1.96	1.87
Weekly Earnings	Dollars	May	78.40	78.99	76.30
PERSONAL INCOME*	$ Billions	Apr.	317.1	315.2	298.9
Wages & Salaries	$ Billions	Apr.	219	218	205
Proprietors' Incomes	$ Billions	Apr.	50	49	49
Interest & Dividends	$ Billions	Apr.	29	29	26
Transfer Payments	$ Billions	Apr.	18	18	18
Farm Income	$ Billions	Apr.	15	14	15
CONSUMER PRICES	1947-'9-100	May	115.4	114.9	114.2
Food	1947-'9-100	May	111.0	109.6	111.1
Clothing	1947-'9-100	May	104.8	104.8	103.3
Rent	1947-'9-100	May	132.2	131.7	130.3
MONEY & CREDIT					
All Demand Deposits*	$ Billions	Apr.	106.1	104.4	104.5
Bank Debits*—g	$ Billions	Apr.	75.5	73.5	68.2
Business Loans Outstanding—c	$ Billions	May	27.8	27.8	22.6
Instalment Credit Extended*	$ Millions	May	3,051	3,227	3,103
Instalment Credit Repaid*	$ Millions	May	2,904	2,987	2,635
FEDERAL GOVERNMENT					
Budget Receipts	$ Billions	May	7.1	5.6	6.1
Budget Expenditures	$ Billions	May	5.5	5.4	5.4
Defense Expenditures	$ Billions	May	3.3	3.2	3.2
Surplus (Def) cum from 7/1	$ Billions	May	(3.0)	(4.6)	(7.6)

(Continued from page 543)

out of work and thus deprived of purchasing power. Although the eventual settlement will result in temporary rebound, it appears probable that before long the economy will again be faced by the same problems that were present before the strike started. Whether these problems can be solved by little more than a rolling readjustment of the kind we have recently been having, or whether a more fundamental change will prove necessary, should become clearer before the year is out. Meanwhile, **the Business Trend Forecaster** and its components should, in coming months, provide important clues as to the answer to this question.

* * *

Short-term **Money Markets** eased in early July and commercial paper rates were reduced for the first time in months. The greater availability of near-term funds was attributable to several factors. Of immediate influence were large Central Bank purchases of Treasury bills in a move to provide the banks with reserves for the usual Independence Day holiday demand. These purchases proved to be redundant, however, as customers wrote an extraordinary number of checks and the resulting increase in "float" pushed reserves to unexpectedly high levels. Another factor making for ease was the prospect of reduced inventories resulting from the steel strike which would reduce the demand for bank loans.

Markets for long-term bonds failed to reflect the buoyancy in the short-term field and heaviness was apparent in the two weeks ending July 9, as a heavy volume of new offerings, either completed or in the offing, at least temporarily reduced the supply of long-term investment funds.

The Federal Reserve Board is studying the possible consequences of a prolonged steel strike with care. Prospective price increases for steel carry an inflationary tinge. If such a consequence were to develop, the monetary authorities would undoubtedly employ sharp counter-moves to control the situation.

* * *

Business Inventories rose further in May to reach a seasonally adjusted peak of $85.2 billion at the

and Trends

QUARTERLY STATEMENT FOR THE NATIONAL ECONOMY

In Billions of Dollars—Seasonally Adjusted, at Annual Rates

SERIES	1956 I QUARTER	1955 IV Quarter	1955 III Quarter	1955 I Quarter
GROSS NATIONAL PRODUCT	398.6	397.3	392.0	375.3
Personal Consumption	258.8	257.2	255.7	245.8
Private Domestic Invest.	62.4	63.2	60.5	54.1
Net Foreign Investment	0.0	—0.3	0.0	—0.4
Government Purchases	77.4	77.2	75.8	75.8
Federal	45.7	46.3	45.5	46.4
State & Local	31.7	31.0	30.2	29.4
PERSONAL INCOME	313.6	311.5	306.1	293.6
Tax & Nontax Payments	36.6	35.4	34.4	32.6
Disposable Income	277.0	276.0	271.7	261.0
Consumption Expenditures	258.8	257.2	255.7	245.8
Personal Saving—d	18.2	18.8	16.0	15.3
CORPORATE PRE-TAX PROFITS*	45.5f	46.8	44.5	40.9
Corporate Taxes	22.8f	23.5	22.3	20.5
Corporate Net Profit	22.7f	23.3	22.2	20.4
Dividend Payments	11.7	12.2	11.0	10.2
Retained Earnings	11.0	11.1	11.2	10.2
PLANT & EQUIPMENT OUTLAYS	32.8	31.5	29.7	25.7

THE WEEKLY TREND

	Unit	Week Ending	Latest Week	Previous Week	Year Ago
MWS Business Activity Index*	1935-'9-100	June 30	288.2	288.5	269.1
MWS Index—per capita*	1935-'9-100	June 30	223.7	223.9	211.9
Steel Production	Thousand Tons	July 7	302	2,114	2,073
Auto Production	Thousands	July 7	89.7	135.0	167.3
Petroleum Production (Daily)	Thous. Bbls.	June 30	7,034	7,056	6,611
Paperboard Production	Thousand Tons	June 30	282	281	279
Lumber Production	Thous. Board Ft.	June 30	256	265	225
Electric Power Output*	1947-'49-100	June 30	219.7	218.2	220.1
Freight Carloadings	Thousand Cars	June 30	755	799	653
Engineering Constr. Awards	$ Millions	June 28	379	444	439
Department Store Sales	1947-'9-100	June 30	105	109	98
Wholesale Prices	1947-'9-100	July 3	113.9	113.8	110.0
Demand Deposits—c	$ Billions	June 27	56.2	56.9	56.2
Business Failures	Number	June 28	249	245	231

month-end. This was $700 million higher than on April 30, matching the rate of gain of recent months and boosting the increase from a year ago to $6.9 billion. Higher replacement costs accounted for part of the increase but a substantial part of the gain reflected a higher physical volume of stocks. The increase in inventories was again concentrated in manufacturing industries, which showed a $600 million advance for the month. Wholesalers added almost $100 million to their stocks while retailers cut theirs by somewhat more than this amount. Reduction by the latter reflected mostly a diminution of dealers' stocks of autos. With **Business Sales** advancing by $1.2 billion during May, the rise in inventories did not have much effect on the stock-sales ratio, which fell slightly during the month.

* * *

New orders for **Machine Tools** were somewhat higher in May, advancing to $78.6 million, from $74.0 million the previous month and $64.3 million a year ago. Shipments also improved, to $70.5 million, from $65.0 million in April.

*—Seasonally adjusted. (a)—Private starts, at annual rates. (b)—F. W. Dodge, for 37 states. (c)—Weekly reporting member banks. (d)—Excess of disposable income over personal consumption expenditures. (e)—Bur. of Labor Statistics data. (f)—Estimated by Council of Economic Advisors. (g)—337 non-financial centers. Other Sources: Federal Reserve Bd., Commerce Dept., Securities & Exch. Comm., Budget Bureau.

THE MAGAZINE OF WALL STREET COMMON STOCK INDEXES

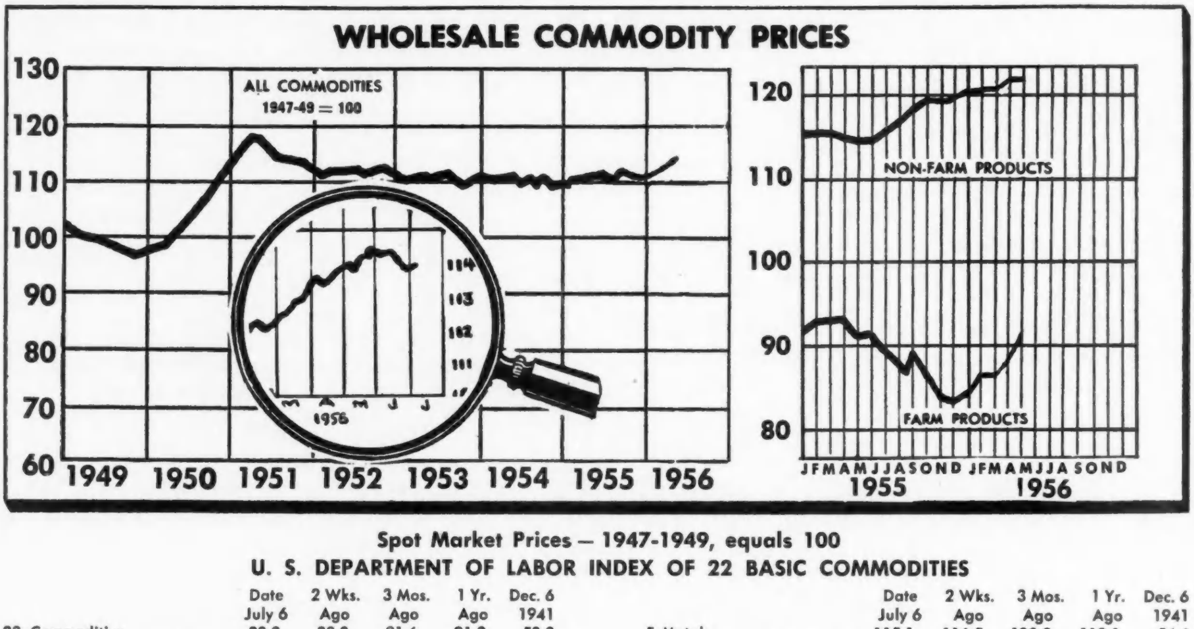
No. of Issues (1925 Cl.—100)	1955-'56 Range High	1955-'56 Range Low	1956 June 29	1956 July 6
300 Combined Average	351.3	282.0	337.9	342.1
4 Agricultural Implements	348.7	251.9	258.4	265.0
3 Air Cond. ('53 Cl.—100)	116.0	87.0	105.8	106.8
9 Aircraft ('27 Cl.—100)	1205.5	871.7	1136.4	1172.3
7 Airlines ('27 Cl.—100)	1263.6	950.3	1033.9	1023.4
4 Aluminum ('53 Cl.—100)	511.2	337.1	503.7	507.4
6 Amusements	180.6	147.0	169.1	164.4
9 Automobile Accessories	373.7	308.3	352.3	355.9
6 Automobiles	55.8	44.3	49.7	49.7
4 Baking ('26 Cl.—100)	30.6	26.7	26.7	26.7
3 Business Machines	1117.6	657.4	1108.7	1117.6H
6 Chemicals	652.3	466.6	610.4	628.3
4 Coal Mining	23.5	14.8	22.3	22.1
4 Communications	116.6	100.7	102.8	104.9
9 Construction	136.4	106.4	132.8	136.4
7 Containers	807.9	675.1	792.7	800.3
7 Copper Mining	361.3	222.2	307.6	307.6
2 Dairy Products	127.0	111.7	115.2	120.0
6 Department Stores	100.2	80.0	88.1	90.9
5 Drugs-Eth. ('53 Cl.—100)	198.3	129.6	193.1	194.8
6 Elec. Eqp. ('53 Cl.—100)	213.5	151.3	200.7	213.5H
2 Finance Companies	651.1	542.2	583.9	589.8
6 Food Brands	301.6	256.2	292.8	292.8
3 Food Stores	175.3	137.7	160.8	168.8

(Nov. 14, 1936 Cl.—100)	High	Low	1956 June 29	1956 July 6
100 High Priced Stocks	239.7	180.6	231.2	235.0
100 Low Priced Stocks	411.1	343.5	395.1	396.9
4 Gold Mining	882.7	649.1	734.4	727.0
4 Investment Trusts	171.2	140.8	154.0	154.0
3 Liquor ('27 Cl.—100)	1155.7	961.3	1025.5	1066.1
9 Machinery	459.1	317.7	451.4	459.1H
3 Mail Order	234.1	159.3	195.4	198.0
4 Meat Packing	170.7	112.8	151.9	153.2
5 Metal Fabr. ('53 Cl.—100)	213.2	155.9	198.2	200.1
10 Metals, Miscellaneous	469.2	358.2	426.2	430.5
4 Paper	1301.8	767.1	1228.3	1249.3
22 Petroleum	858.5	590.0	823.8	844.6
21 Public Utilities	261.5	234.8	253.9	256.4
7 Railroad Equipment	95.1	73.4	90.6	90.6
20 Railroads	82.0	64.7	75.1	75.1
3 Soft Drinks	565.7	459.9	507.7	507.7
12 Steel & Iron	336.9	219.2	311.9	318.1
4 Sugar	68.8	56.1	63.8	63.8
2 Sulphur	964.0	758.4	822.3	831.5
11 Television ('27 Cl.—100)	47.3	37.1	37.1	37.1
5 Textiles	188.9	148.4	151.2	151.2
3 Tires & Rubber	201.0	137.8	184.5	186.4
5 Tobacco	96.7	81.9	92.9	93.9
2 Variety Stores	315.0	278.5	281.4	284.3
15 Unclassif'd ('49 Cl.—100)	159.8	141.9	158.3	159.8H

H—New High for 1955-1956.

Trend of Commodities

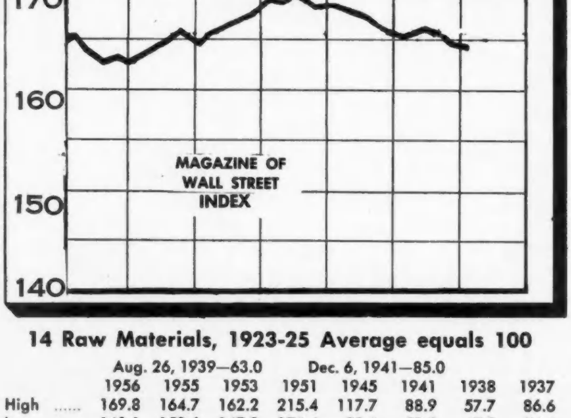
Commodity futures followed disparate courses in the two weeks ending July 10. Wheat, soybeans, cotton and cocoa were lower, while coffee, copper, wooltops and rubber advanced. Corn futures were higher with the exception of the September option which was unchanged. The Dow-Jones Industrial Average gave up a trifling 0.08 points during the period to close at 156.39. September wheat lost 2¼ cents in the fortnight under review, to close at 209. After the close on July 10, the Agriculture Department released its wheat crop forecast, estimating that 923 million bales would be harvested, based on July 1 conditions, a figure somewhat under trade expectations. Previously, Secretary Benson had set the national average support price for the 1957 wheat crop at $2.00 a bushel, contingent on farmer approval of marketing quotas in the referendum to be taken July 20. If the quotas fail to win two-thirds of the voters, then the support level would be only 50% of parity, or about $1.21 a bushel, based on current parity levels. The farmers have approved quotas in each of the past five years, and this time they will have the soil bank program as an added incentive. At the moment, harvesting operations are exerting pressure on wheat prices but this factor should be eliminated in a few weeks. September corn was unchanged in the two weeks ending July 10, closing at 149. In the case of corn, the Department of Agriculture forecast a 3.3 billion bushel crop this year, well below expectations, but this news came too late to affect July 10 trading. Actual output may be under official estimates as drought conditions in some corn areas may induce farmers participating in the soil bank to abandon acreage and thus derive the benefits of that plan.



Spot Market Prices — 1947-1949, equals 100

U. S. DEPARTMENT OF LABOR INDEX OF 22 BASIC COMMODITIES

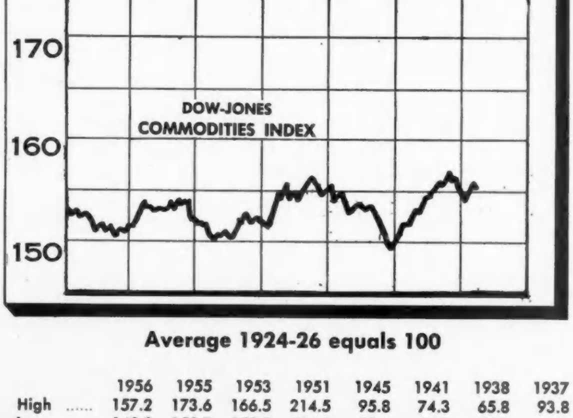
	Date July 6	2 Wks. Ago	3 Mos. Ago	1 Yr. Ago	Dec. 6 1941
22 Commodities	88.2	88.0	91.6	91.2	53.0
9 Foods	80.3	80.2	80.4	86.1	46.5
12 Raw Industrials	94.0	93.7	100.2	94.7	58.3
5 Metals	115.1	116.5	130.2	110.1	54.6
4 Textiles	79.3	79.2	80.1	83.4	56.3
4 Fats & Oils	62.4	64.4	67.5	66.3	55.6



14 Raw Materials, 1923-25 Average equals 100

Aug. 26, 1939—63.0 Dec. 6, 1941—85.0

	1956	1955	1953	1951	1945	1941	1938	1937
High	169.8	164.7	162.2	215.4	117.7	88.9	57.7	86.6
Low	163.1	153.6	147.9	176.4	98.6	58.2	47.3	54.6



Average 1924-26 equals 100

	1956	1955	1953	1951	1945	1941	1938	1937
High	157.2	173.6	166.5	214.5	95.8	74.3	65.8	93.8
Low	149.8	150.7	153.8	174.8	83.6	58.7	57.5	64.7

Keeping abreast of Corporate Developments

The British plan to begin unloading 36,000 tons of copper from their strategic stockpile around the middle of August. Sales will be made gradually over a period extending into next spring. It was Britain's second move to lighten holdings of industrial raw materials accumulated for defense. Little more than a year ago the British began selling 65,000 tons of copper to industry. Disclosure of this latest copper-dumping plan brought a sharp drop in spot copper prices at London. At the same time, the **Rhodesian Selection Trust** group reduced its price for the metal to British consumer by 3⅛ cents per pound. The new price of 34⅜ cents was a long way from the 48⅛ cents that prevailed early this year.

National Shoes, Inc. became a public corporation last August. The first dividend to stockholders will be coming along July 27—a stock dividend of 5% on the common. There are 543,560 common shares.

Halliburton Oil Well Cementing Co. has raised the quarterly dividend on the common to 60 cents from 50 cents, payable September 25 to stockholders of record September 10.

While major steel producers were engaged in the "guaranteed annual wrangle" **Copperweld Steel Co.** went right on producing. Its workers were not affected by the steel strike since they are covered by a United Steelworkers contract which had been extended indefinitely. In a special arrangement with the union, Copperweld agreed to grant employes of its steel division the same terms that are eventually granted by the major producers and make them retroactive to July 1. At the same time the company raised the price of its steel bars $9 a ton. This hike is of more than ordinary interest, since it represents management's guess as to what the labor-cost increases will cost the company.

June was the last normal month for the railroads. It should compare favorably with the May showing, marked by estimated net income of Class I railroads (after taxes, interest and rentals) of $85 million, compared with $86 million in the month of 1955. Net operating income of the 121 major carriers rose to $102,472,000 from the $101,460,000 in May of 1955. For the first five months of this year, the carriers netted $322 million, compared with $328 million in the like period a year earlier. Starting with July, however, comparisons are bound to be distorted as roads were first to feel impact of the steel strike.

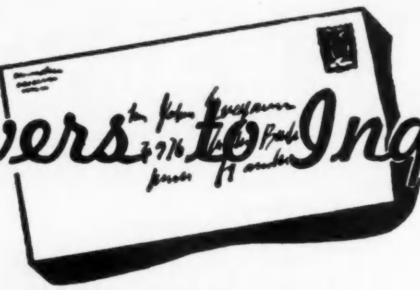
Gulf States Utilities Co. reports for May, gross of $4,438,000 and net income of $773,000. This compares with $4,028,000 and $794,000 in May, 1955. For the latest 12 months, gross was $52,990,000 and net income $10,562,000, or $2.14 a common share. This compares with gross of $48,208,000 and net of $9,746,000, equal to $1.95 a common share, in the preceding 12 months.

El Paso Natural Gas Co. common and preferred shareholders, at a special meeting to be held on July 25, will vote on proposals to increase the authorized capital of the company. Under the proposals, authorized preferred shares would be raised to a million shares from 600,000 and the maximum aggregate principal amount of bonds issuable under the company's mortgage indenture would be increased to $850 million from $500 million. Certain provisions relating to preferred also are up for modification.

Mack Trucks, Inc. has been awarded a $12,841,000 contract from the Army for one-ton trucks and spare parts. Deliveries are slated to begin in October.

Champion Paper & Fibre Co. illustrates anew that there is no softness in paper. Net for the fiscal year ended March 31 increased to a record of $13,103,000 from the $10,202,000 of the preceding year. The income is equal to $5.74 and $4.42 a share for the respective years. Sales amounted to $154,200,000 in the latest year (another record), against $135,160,000 a year earlier. The company has filed a registration statement with the Securities and Exchange Commission covering $200 million of debentures. These are to be offered to public by a nation-wide group of underwriters headed by Goldman, Sachs. Bulk of proceeds will be added to general funds.

Answers to Inquiries



The Personal Service Department of THE MAGAZINE OF WALL STREET *will* answer by mail or telegram, a reasonable number of inquiries on any listed securities in which you may be interested or on the standing and reliability of your broker. The service in conjunction with your subscription should represent thousands of dollars in value to you. It is subject to the following conditions:

1. **Give all necessary facts, but brief.**
2. **Confine your requests to *three listed securities* at reasonable intervals.**
3. **No inquiry will be answered which does not enclose *stamped, self-addressed envelope*.**
4. **No inquiry will be answered which is mailed in our postpaid reply envelope.**
5. **Special rates upon request for those requiring additional service.**

Owens-Illinois Glass Co.

"I am interested in attractive long-term investment issues and therefore would like to receive late earning data on Owens-Illinois Glass Co."

E. A., Bloomfield, N. J.

Owens-Illinois Glass Co. is the major producer of glass containers and is also important in other forms of glass, with a one-third interest in the rapid growing Owens-Corning Fiberglas Corp.

The company has an excellent record of sales and earnings and dividends have been paid consecutively since 1907.

For the twelve months to March 31, 1956, net sales and revenues amounted to $376,430,211, net profit was $26,834,405, equal to $4.39 per share based on 6,113,748 shares outstanding. This compares with net sales and revenues for the 12 months ended March 31, 1955, of $341,402,352, net profit $23,782,152, equal to $7.78 per share based on 3,056,874 shares then outstanding.

Higher earnings in the past year or so resulted from increased volume and economies brought about by greater operating efficiencies.

Reflected in the increased sales were gains made by most of the company's diverse line of glass containers, by metal and plastic closures and by-products of two O-I subsidiaries—television bulbs, and scientific laboratory glassware manufactured by Kimble Glass Co., and the plywood and lumber core materials of the O-I Plywood Co.

The glass-container industry shipments for 1955 were up nearly 9% to an all-time high of 135.5 million gross and Owens-Illinois had shown comparable gains.

Owens-Illinois completed additional plant facilities at Alton and Streator, Ill., and Bridgeton and Vineland, N. J., during 1955 and started others at Columbus, O.; Clarion, Pa.; Gas City, Ind.; and Glassboro, N. J. A new glass-container manufacturing plant, under construction near Portland, Ore., is scheduled for completion in July. Company plans starting construction in June of a multi-million dollar glass plant at Havana, Cuba. Plant will be capable of producing 72 million bottles and drinking glasses per year.

Quarterly dividends of 62½ cents per share have been paid thus far in the current year. Prospects over coming months continue favorable.

Beatrice Foods Co.

"I am interested in consumer-goods industries, particularly in defensive-type securities where sales and earnings should not fluctuate too widely when business recedes. Please furnish data on Beatrice Foods."

G. L., Cleveland, Ohio

Beatrice Foods is one of the largest dairy companies, operating mainly in the Western states. Acquisitions in recent years, particularly in non-dairy lines, have diversified its markets. Earnings have shown a steady rise in each of the past five years.

Beatrice Foods' net income of $6,389,680 and sales of $325,024,681 for the fiscal year ended February 29, 1956, were the highest in the company's history. Consolidated net earnings after provision for Federal income taxes increased $836,469, or 15%, over net earnings of $5,553,211 in the preceding fiscal year.

Net earnings after dividends on preferred shares outstanding were equivalent to $4.51 per share on 1,320,868 common shares outstanding on February 29, 1956 compared to $4.28 on 1,187,098 common shares outstanding at February 28, 1955. Dollar sales were up 13% over sales of $287,352,312 for the previous year and sales on a unit basis increased for the nineteenth consecutive year. Sales have increased 42%, or almost $100,000,000, in the last five years as a result of the company's extensive program of growth and product diversification. The three fastest-growing divisions have been fluid milk and cream, ice-cream and non-dairy products.

Sales of bottled milk and cream increased by $14,840,992, representing the seventeenth straight year-to-year gain, and now constitute 38% of total sales volume, compared with 32% five years ago. The addition of three dairy companies helped account for a 14% increase in unit sales in this division.

Sales of non-dairy foods and services also soared to a new peak, accounting for 21% of the total, compared to 17% five years ago.

(Please turn to page 568)

WHAT MAKES CHESSIE AI

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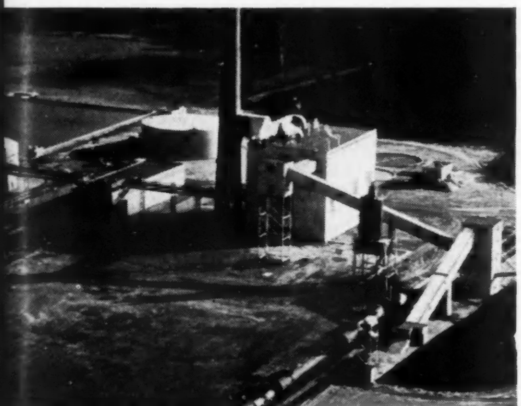
One of a series telling what Chesapeake and Ohio is doing to make this a bigger, better railroad.

Synthetic Lady

Everything the lovely little lady is wearing from the soles of her slippers to the ribbon on her hat is a product of the chemical industry, made out of such ordinary materials as coal, salt, sand, wood-pulp and natural gas—resources found in great abundance along the 5,100 miles of the Chesapeake and Ohio.

The chemical industry is growing at a tremendous rate, with many of its new plants going up along the Chesapeake and Ohio. Each new or expanding factory means diversified growth for Chesapeake and Ohio—not merely the raw materials that go into the plant and the finished goods that come out, but homes, schools, groceries for the people who come to work there.



How one industry attracts others: Hooker Electrochemical Company built a plant on the C&O at Montague, Mich., right over a thousand-year supply of salt. Union Carbide and Du Pont—both large users of Hooker products—built plants next door so gases and liquids could be piped in.

As one result of such industrial growth, C&O's merchandise freight business is four times what it was twenty-five years ago. To better serve its booming industry, C&O has spent a half billion dollars in the last ten years expanding and modernizing its transportation plant. Equally significant is the fact that 80% of this vast improvement program has been paid for out of current income. And last year, the annual dividend rate was increased to $3.50.

Another $100 million in further improvements is programmed for this year: At Newport News, Va., a new bulk cargo pier that can unload over eight million tons of import ore a year; and a new addition to the great coal docks that will increase their capacity to 2½ million tons a month. At Russell, Kentucky, a new $5½ million classification yard. 222 new diesel locomotives and 8,000 new freight cars.

Every day in every way, Chessie's railroad is growing and going!

Write for new booklet describing industrial resources and opportunities in C&O territory. Address:

Chesapeake and Ohio Railway

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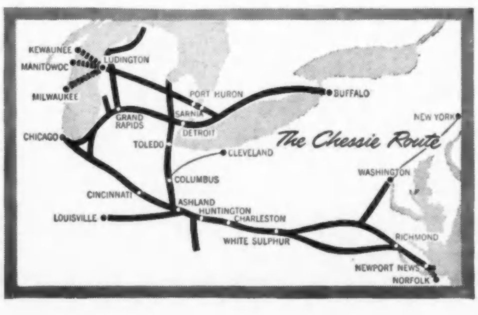


Tobacco Outlook Still A Mixture

(*Continued from page* 535)

smoking trends.

Cigars In Greatest Favor

Cigar output in April amounted to 474.7 million units, a jump of 6% from April, 1955. Smokers used up 506.6 million cigars during the month, 10% more than a year earlier. For the year through April, more than 1.9 billion cigars were made–4% higher than the corresponding period of last year. Some 1.9 billion cigars went to retail outlets during the four months, 11% more than a year earlier.

Pipe tobacco did not fare so well, with producers turning out 6.6 million pounds in April, 4% under the year-earlier level. Smokers burned up 6.4 million pounds during the month, 3% less than a year earlier. For the first four months of this year, production totaled 24.3 million pounds, or 11% less than the like period of last year. Smokers consumed 23.8 million pounds, 10% less than a year earlier.

More Cigarettes, Less Tobacco

Cigarette production this year is expected to reach about 425 billion units. That would represent an increase of 3% from 1955 and carry the industry to the highest level, with the exception of 435.5 billion of 1952. At the same time, the use of tobacco is not calculated to keep pace with the upturn in cigarettes, since less tobacco is being used in certain filter-tip smokes and also because of the use of "processed tobacco" in a few brands. Processed tobacco (about which more later) is made from fibrous portions of the leaf in combination with small pieces of leaf that could not ordinarily have been used in cigarettes hitherto.

It is no secret that filter-tip types are all the rage and the periodic cancer scares have been the major cause of this trend. These scares may prompt people to stop smoking for a spell and when they come back, it is often to filters, which claim to trap harmful ingredients. As recently as 1952, filter tips held but 2% of the total cigarette market. By 1955, they had garnered nearly 20% of the market and should move up to around the 25% bracket this year.

Reign Of the Kings

King-size cigarettes also continue to make considerable gains. With cigarette prices moving up over the years (due largely to Federal, state and local taxes), it is not surprising that smokers should turn to these larger-size cigarettes in a quest to get more for their money.

Biggest-selling king is American Tobacco's Pall Mall, which has moved up steadily over the years to take the No. 3 position, elbowing Liggett & Myers' Chesterfield out of that slot. Only R. J. Reynolds' Camel and Amercan Tobacco's Lucky Strike outsell Pall Mall, but Camel and Luckies are standard-size cigarettes. These are steadily losing ground to the kings and the filters, hence fast-growing Pall Mall may yet take over the top spot.

Unfortunately, there are no official figures on how many of the cigarettes manufactured are regular, king size and filter. Aggregate tobacco consumption when measured in pounds partly depends on the proportions of these categories. King-size units weigh more than the regular. Less tobacco is used in a substantial number of filters than in either of the other two types. It is believed that the kings contain from 12% to 17% more tobacco than regular-size cigarettes and that some filter tips contain around 7% less tobacco than regular. This variation in weight of different categories of cigarettes has become increasingly significant as the proportion of regular-size smokes of fairly uniform weight has shrunk from an estimated 90% in 1950 to about 55% last year.

Price Rise Blocked

While tobacco stocks have gained in favor the past year, there has been no brisk bidding for these shares, aside from a brief flurry in May. A sudden upward spurt was triggered by Liggett & Myers, which announced a boost of 45 cents a thousand in the wholesale price of regular and king-size Chesterfield. American Tobacco swiftly put out word that there would be no rise in the price of its brands. Other producers also declined to go along with Liggett & Myers so that company rescinded the rise. Tobacco stocks soon settled back in their quiet groove.

Smokers who daily tear away the Internal Revenue stamp and usually other tax stamps from their packages are all too familiar with the severe taxes imposed on this industry. And it is these levies, rather than any postwar price increases, that have made smoking so much more costly.

For Teachers and Highways

Any legislature that wants to raise teachers' pay or build a highway has only to hit the smoker. Indeed, cigarettes are taxed in 42 states and the District of Columbia. Federal and gross state taxes from cigarettes in the fiscal year that ended June 30 totaled about $2.1 billion. That is about $100 million more than in the preceding 12 months. In the six states not levying a cigarette tax, the Federal tax of 8 cents a pack of 20 applies and in the other 42 states, an additional average of non-Federal taxes of about 3.75 cents applies. Since the average pack of cigarettes retails for 23 cents, it follows that about half of the cost goes for taxes.

That, of course, refers to the taxes paid by the consumer. In 1954, incidentally, the Congress passed legislation to relieve the cigarette manufacturers of the burden of paying for these excise stamp taxes in advance of sale of their product. The Internal Revenue Code of 1954 authorizes the Treasury to accomplish this by instituting a return system of excise tax payments, with the date of changeover to be set by the Secretary of the Treasury. The Treasury has delayed action on this matter, so vital to the industry.

Adoption of the system would mean a sizable reduction in the short-term debt the companies incur and, of course, a measurable savings in interest costs.

Other Cost-Cutters

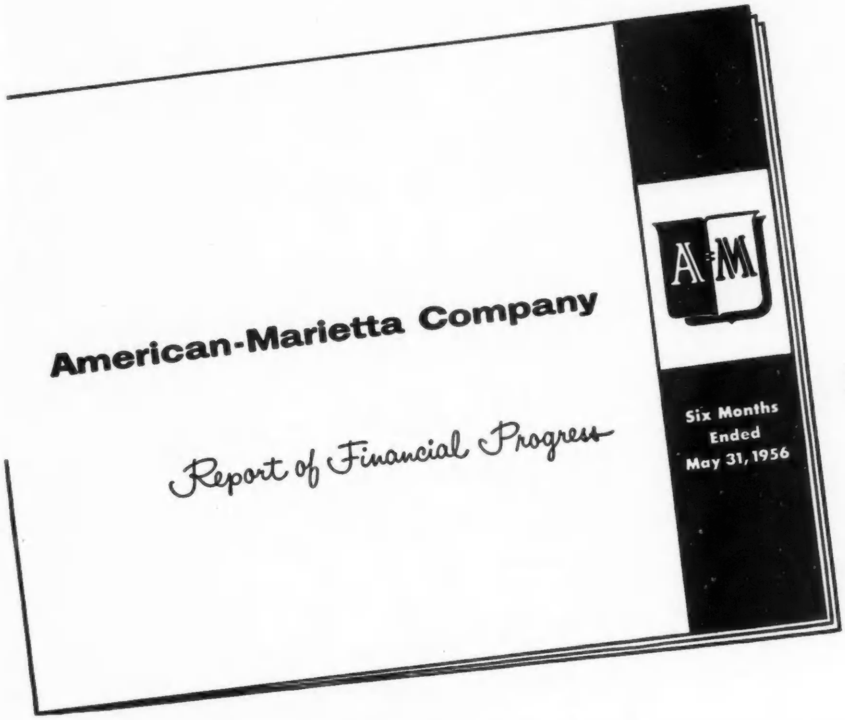
The cigarette industry long has been one of the most highly mechanized, but no end is in sight to the cost-cutting features cultivated by this industry, whose components traditionally are con-

(*Please turn to page* 556)

17,497

American-Marietta

Shareowners are benefiting from a record-breaking 6 months



SALES CLIMBED

29%

TO $85,950,601

EARNINGS INCREASED

46%

TO $5,745,369

American-Marietta's Semi-annual Report contains background information on the Company's policy for growth and expansion. A copy of "What the Highway Program Means to American-Marietta" will be sent to those requesting the Report.

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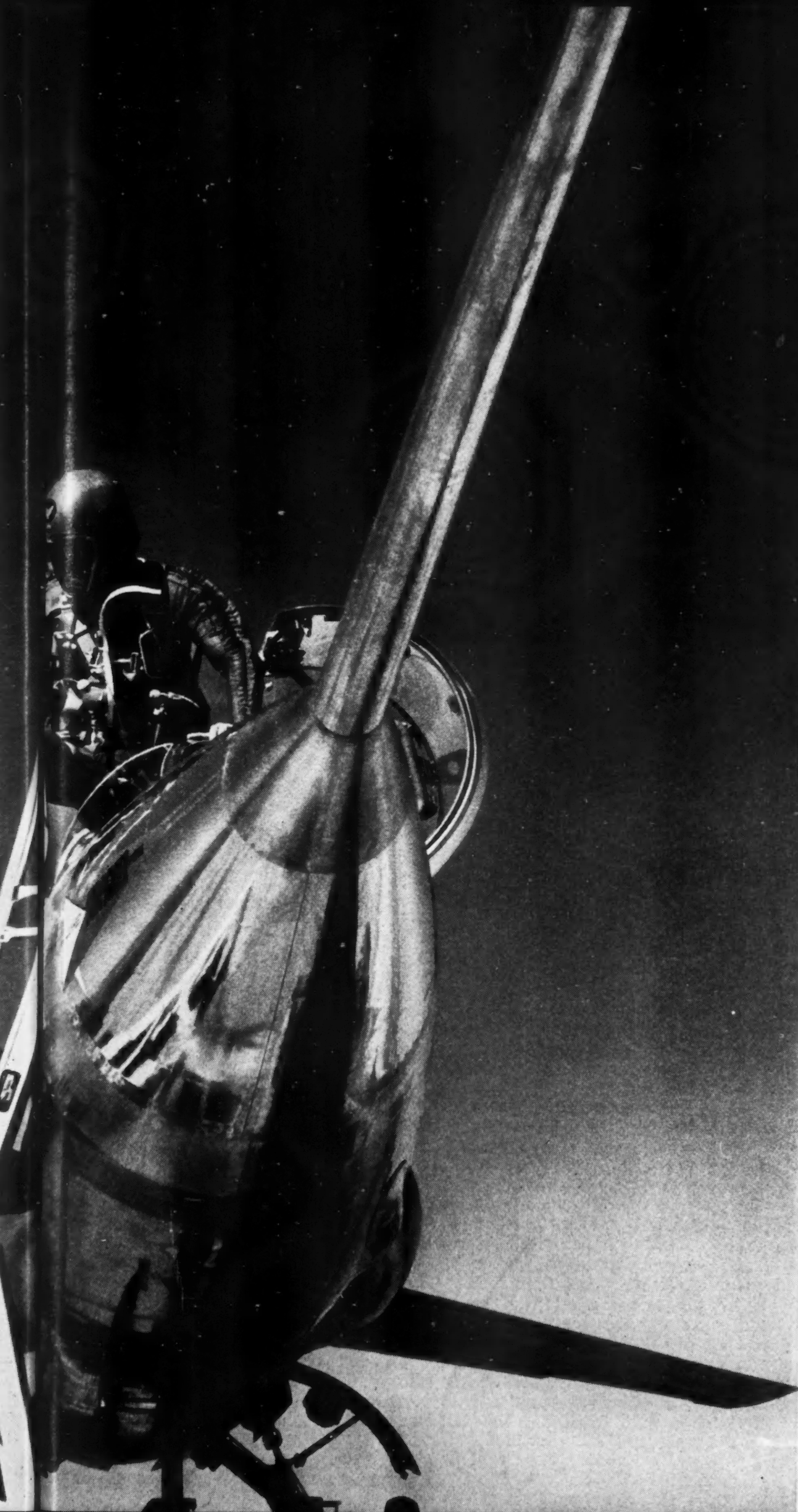

LOCKHEED'S NEWS COLUMN

Dick Tracy has lost his lead *in the electronics race. His wrist radio is surpassed by a new "miniaturized" TV camera. Small enough to fit into a vest pocket, its "eye" is about the size of a cigarette. Built by Lockheed for research ONLY . . . (so far) . . .*

Missile Mail is promised in the foreseeable future as a civilian development of missile technology. A Lockheed official says that the thousands of scientific and technical people now researching the whole environment of man in connection with missile development will produce civilian benefits beyond the imagination of the layman today. A letter by missile, of course, would get there faster than you could write the letter in the first place . . .

A Lockheed Man is working quietly in a sanctuary abroad on a nuclear engine design that will make headlines world-wide when they take the wraps off. Same man's blueprints on a nuclear contraption so startled top military authorities very early in the nation's atomic program that they locked his patent in a government vault where, for security reasons, it still remains . . .

Lockheed has been handed *a big piece of the much-talked-about ICBMissile that will keep its Missile Systems Division scientists working nights in their new facility near Stanford University — which, incidentally,* **tripled** *in size between blueprints and ground breaking . . .*

Beating the heat which tops 250 degrees Fahrenheit at twice the speed of sound is a matter of concern now to engineers of Lockheed's California Division who are working on methods of making airplane skin glass-smooth. Even modern, high-strength dural surfaces approach their temperature limits at these speeds . . .

Early America makes atomic history this month as Lockheed Georgia Division breaks ground for its new atom-powered plane facility. The 10,000-acre North Georgia site was in the same family ever since the area opened for settlement in the 1840's.

Tobacco Outlook Still A Mixture

(*Continued from page* 552)

sistent money-makers.

American Machine & Foundry Co., the largest producer of cigarette-making equipment, is doing a brisk business turning out such items as hard-board cigarette-packing machines. One of these units is capable of turning out 72,000 packages daily. The rapid growth of Marlboro, in the familiar flip-top box, has touched off the demand. Philip Morris, producer of Marlboro, is so impressed with the success and efficiency attained through this type of package that it has begun to put other brands of the line in that kind of container. The cigarette industry spends on the order of $100 million annually for packaging supplies.

Yet another cost-cutting device is a new method of applying filter tips to smokes, which is expected to render obsolete all other filter-tipping systems used in the business. It is believed capable of producing filter-tip cigarettes at a rate of 1,200 a minute, compared with present machines that grind out 600 to 1,000 per minute and require two separate operations.

There are innumerable other processes now gaining in favor as the industry seeks improved quality and reduction of costs.

What could well be the most important cost-cutter of them all is the hitherto-noted process for reconstituting tobacco – that is, utilizing lower grades of tobacco. It entails using stems along with inferior and broken leaves. There is a good deal of talk about "synthetics." It derives from the fact that in the process of reconstituting the tobacco it is ground into tiny particles and then rolled into sheets much as paper is made from woodpulp.

There is experimentation in the industry with adhesives or fiber mats, which bind the scrap tobacco in forming the sheets. The idea is to use the processed tobacco as an outside binder for cigars. It also can be shredded and blended in with better-grade tobaccos for cigarettes. If details are scanty, it must be remembered that manufacturers are loath to disclose trade secrets. Even more worrisome is consumer reaction. After all, the public is accustomed to advertising claims that only the finest tobacco is used.

Connecticut, which grows the kind of tobacco used as an outer binder in cigars, already is feeling the pinch. The growth of processed tobacco leaf bodes ill for the farmers from that state. Much of their 1955 crop went unsold. Makers of cigarettes also are deeply interested in the process, since waste from broken leaves runs high.

Question of Prices

While a price rise in cigarettes was thwarted by the industry this spring, there may be a boost later in the year. The tobacco people may prefer to wait until the newest round of wage-price increases elsewhere in the economy is completed before acting. The labor-cost factor is relatively modest in the tobacco industry, but the companies will probably feel greater justification for a price hike (than they did in May) after they have absorbed higher prices for steel and other materials plus transportation costs and wage increments of their own.

Since the industry is bitterly competitive, it is all but impossible for a cigarette company to support a price increase on its own. This is especially true of the popular-price brands in a time of little brand loyalty. Smokers are switching as never before – not only brands but types–filter, king and regular. Premium brands probably enjoy the greatest patronage loyalty today, but these "class" cigarettes have a limited appeal.

The Investment Viewpoint

Few groups offer yields that compare favorably with the tobaccos and even fewer can boast the earnings record that is characteristic of the cigarette manufacturers. The investment stature of companies such as American Tobacco and R. J. Reynolds was of the first rank until the health bugaboo struck.

Yields range from 5.9% (Reynolds) to 7.5% (Liggett & Myers) among the five cigarette leaders. Smallest dividend yield for the tobaccos over-all is the 3.8% of Consolidated Cigar, which leads its field in sales and earnings. It has paid dividends in each year since 1938.

The health scare has left the tobacco stocks in the ruck amid the greatest bull market in history, despite progress in the past year. American Tobacco, as an example, sold above 100 in 1946, compared with a present price of 78. Other leaders of the industry also have fared poorly, as far as the investor is concerned.

Tobacco stocks are deserving of a place in the well-rounded investment portfolio because of their liberal yield supported by almost universally rising earnings power. And since they have lagged over the long term, they offer moderate growth potentials. Their advance could be even more impressive in event of a decline in adverse medical publicity. The only important risks attaching to such commitments would seem to stem from the conclusive type of finding that might be adduced by eminent medical sources.

In the absence of such finding, each of the makers of tobacco products showed improved earnings last year. A similar pattern may be expected for 1956. A rising earnings base, of course, should impart greater investor confidence in the maintenance of the liberal dividends that now prevail.

Attention is called to the accompanying table of statistics and commentaries on each of the tobacco producers. END

Processing Food: $68 Billion a Year and Headed Higher

(*Continued from page* 533)

bakers, and American Bakeries have been feeling the effects of high costs and stern competition.

Little Nourishment in Milk

In the dairy field, Pet Milk Co. offers an example of the diminishing profit margin for these operators. Net earnings per dollar of Pet sales in 1950 totaled 2.57 cents, decidedly unattractive. But in 1951 it was a mere 1.81 cents and by 1952 it had slid to an almost undiscernible 1.42 cents. It was 1.64 cents in 1953 and 1.56 cents in 1954. Last year it hit a low of 1.41 cents and this year margins on its evaporated milk remained at about the same level as a year ago. If net earnings

(*Please turn to page* 558)

The FIRST NATIONAL CITY BANK *of New York*

Head Office: 55 Wall Street, New York

75 Offices in Greater New York — 68 Overseas Branches, Offices, and Affiliates

Statement of Condition as of June 30, 1956

ASSETS

Cash, Gold and Due from Banks		$1,611,279,820
United States Government Obligations		1,113,532,813
Obligations of Other Federal Agencies		5,576,158
State and Municipal Securities		467,182,961
Other Securities		124,112,626
Loans and Discounts		3,477,523,982
Real Estate Loans and Securities		39,510,743
Customers' Liability for Acceptances		64,044,007
Stock in Federal Reserve Bank		15,000,000
Ownership of International Banking Corporation		7,000,000
Bank Premises		34,543,905
Items in Transit with Branches		3,558,930
Other Assets		6,763,953
Total		$6,969,629,898

LIABILITIES

Deposits		$6,249,720,388
Liability on Acceptances and Bills	$79,416,817	
Less: Own Acceptances in Portfolio	11,370,647	68,046,170
Due to Foreign Central Banks (*In Foreign Currencies*)		22,042,500
Reserves for:		
Unearned Discount and Other Unearned Income		26,060,635
Interest, Taxes, Other Accrued Expenses, etc.		35,125,845
Dividend		6,000,000
Capital (*10,000,000 Shares—$20 Par*)	$200,000,000	
Surplus	300,000,000	
Undivided Profits	62,634,360	562,634,360
Total		$6,969,629,898

Figures of Overseas Branches are as of June 25.

$519,982,422 of United States Government Obligations and $28,118,300 of other assets are pledged to secure Public and Trust Deposits and for other purposes required or permitted by law.

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Vice-President and Cashier

RALPH H. THOMSON
Comptroller

Processing Food: $68 Billion a Year and Headed Higher

(*Continued from page* 556)

of Pet are to rise, then it must come from its diversification into the frozen-food field, for confinement exclusively to the dairy industry offers no prospect of a broadened earnings base. Evaporated milk offers the slimmest of pickings.

Pet is not the only processor which sees a broad horizon in frozen foods. This burgeoning industry, born of the scientific laboratory and modern refrigeration and nurtured by the promise of relief from household drudgery, has attracted such "name" companies as Swift, Carnation, Campbell and a dozen others.

Campbell Soup gained global fame with its soup, but a different Campbell is emerging due to the recent acquisition of C. A. Swanson & Sons, largest producer of frozen pre-cooked dinners and frozen meat pies. Swanson sales were in excess of $90 million annually when Campbell took it over. Campbell moved in here because it wanted to widen its participation in the growing frozen-food field.

Frozen foods over-all now generate an annual volume of about $2 billion, but this infant industry should attain even greater sales over the next few years with the aid of mergers that bring experienced personnel and additional working capital into the business. The industry's pack of frozen fruits and vegetables alone last year totaled 1.8 billion pounds, an all-time record and a rise of 20% from 1954. The pack of frozen vegetables, which is the industry's largest single category, amounted to more than 1.1 billion pounds, 17% higher than the 1954 pack.

Over and beyond the benefits that will flow to the industry from the entry of the "name" companies into the field are the assurance of such aids as growth in the size of retail outlets (notably supermarkets), the amount of frozen-food cabinets in these outlets, the educational work that distributors will do to increase consumption and availability of products. Add to all these favorable factors the penchant of the American people for "convenience" items and it is difficult to envisage anything but growth over the next few years.

Probably no company has pursued the development of convenience foods more diligently than General Foods and none has been more successful—if sales, earnings and profit margins are fair yardsticks. Its instant coffee brands, Maxwell House and Sanka; its Swans Down cake mixes, Post dry cereals and Birds Eye line of frozen foods, to cite but a few, are world famous. Sales and earnings of General Foods for the fiscal year that ended March 31 set all-time records. Its first billion dollar year now is in sight – volume in latest year was above $931 million.

The company's emphasis on convenience for the consumer has been translated into a small bonanza for shareholders. The shares have moved up on a stock split this year and the last dividend on the old shares was 90 cents, prior to which 85 cents was paid (the quarterly rate a year ago was 75 cents).

While General Foods is an outstanding company in its field (or any other field, for that matter), it is not immune to the high costs that plague this business. A breakdown of its income dollar discloses that 66.2 cents goes for the cost of goods it sells. Marketing, administrative and other services take 12.4 cents, while salaries, wages and benefits account for another 12.1 cents. Income taxes take 5.1 cents. Of the 4.2 cents remaining, 2.2 cents are retained as earnings, so 2 cents of the income dollar is paid out to shareholders.

Development and promotional costs of new products take huge sums in this business, but General Foods has found the time and trouble well worthwhile. Sales of newer products—largely convenience items acquired or introduced in the past decade—in fiscal 1956 accounted for $285.4 million of the total take. This was a gain of 20% from the preceding year.

The upsurge in sales of General Foods and the other processors owes much to the impulse buying made possible by the supermarket era. Whereas shoppers asked for milk or coffee or bread in the old-style Mama-and-Papa store, they now stroll about the spacious aisles of establishments that resemble a junior department store.

They All Pay Dividends

While it must be apparent from the foregoing that food processors have manifold problems, an investment analyst would be hard put to uncover an industry more uniformly prosperous. As will be noted from the statistics and comments on each company accompanying this article, each of the 27 companies under review pays dividends, yields ranging from 3.8% to 6.7%. And however their problems may differ, they

also have this in common: They operate profitably. The investment analyst, finally, would be even harder put to find an industry that offers greater stability—there are no cyclical swings in the human need for food. Food stocks also have strong defensive characteristics.

As noted, however, earlier in this article, the companies in the field vary in many things—from profit margins to products. In a business marked by bitter competition, price-cutting, giveaways and costly advertising-promotion, the greatest strides will be attained by those entities that are best financed, alert to consumer preferences and endowed with intensive research. But even the companies that are something less than "giltedge" in quality should be helped by the emergence each year of 4 million babies.

We have not undertaken to cover the meat-packers in this survey because THE MAGAZINE is arranging an analysis of the special influences on that group for publication in a subsequent issue.

END

1956 Outlook for Liquors—Beers—and Soft Drinks

(*Continued from page* 536)

go along under the present excise tax of $10.50 a 100 proof gallon on its output. However, one of the quickest ways to eliminate it would be to put the excise tax back to the $9 level, or in lieu of such action, grant the distillers some relief by extending the "force-out" period beyond the present eight-year limit. For a short time earlier this year, the distillers were encouraged to believe that the Congress would take action to put a new tax law into effect. The House Ways and Means Committee voted to allow the distillers to keep their distilled spirits in bond up to 20 years without payment of the excise tax but that's as far as this proposal got.

Through an action instituted earlier this year in a U. S. District Court, Schenley, owner of the largest inventories of aged whiskies, has challenged the constitutionality of the 8-year "force out provision", as well as the additional $1.50 tax that went into effect on November 1, 1951, and which was applied to distilled spirits already in warehouses on that date. Although the company is hopeful of an early adjudication in the District Court, it is likely the case will be carried up to the highest tribunal by either side which means that the final decision is some way off.

Schenley, along with other leading distillers, is strengthening its competitive position in the industry through improved marketing programs and effecting operating economies. While continuing to stress its theme, the "Golden Age of Elegance" in advertising its famous "name" brands, further product diversification has been achieved by the acquisition of Park & Tilford, introduction of Canadian Schenley O. F. C., Samovar Vodka and the purchase last July of 98.9% of the outstanding capital stock of Dubonnet Wine Corp. The latter is the owner in the U. S. of the Dubonnet trade-mark and has the sole right to produce the internationally-famous apertif for the American market.

Schenley also continues to manufacture a number of cattle and poultry supplemental feeds, and it continues to move forward through expanding operations of its Schenley Laboratories, which introduced six new products during the past fiscal year, and the Norex Laboratories, its proprietary pharmaceutical company.

Net sales for the fiscal year ended last August 31, totaled $411.7 million. Although not a record sum for the company, it is still a sizable amount until it is realized out of it came $267 million for excise and other myriad taxes. Earnings for the year amounted to $12.7 million before Federal income taxes, which took approximately 51%, or $6.6 million, leaving net income of $6.1 million for the shareowners. This was equal to $1.40 a share, compared with 87 cents a share in the previous year. At its current price of 19¼, present dividend at annual rate of $1, which should be maintained, yields 5.1%. The stock, while not possessing dynamic growth qualities, can be retained for yield and its possibilities over the long-term. These could be enhanced by tax-easing action.

National Distillers Products Corp., like Schenley, while pressing for fair tax rates, also is taking advantage of the trend in consumer preference toward

straight whiskies to improve sales. National, in this respect, is in an enviable position with such brands as Old Taylor, Old Grand-Dad and Old Crow, three of the most famous names among bourbon whiskey, and which National distributes as 86 proof for those who prefer a lighter, straight bourbon and as 100 proof bottled-in-bond. Other products of National are Mount Vernon and Old Overholt, two of the best known brands among straight rye whiskies. National also owns a two-thirds interest in W. & A. Gilbey, Ltd.

Probably National's greatest potential for growth over the years is in the chemical field. Its chemical division consists of the company's own U. S. Industrial Chemicals, producing principally industrial ethyl alcohol and related solvents, caustic soda, nitric acid, ammonia and sulphuric acid. In addition, it holds a 60% interest, with Panhandle Eastern Pipe Line Co. owning the remaining 40%, in National Petro-Chemicals Corp., operating a number of modern plants for the production of polyethylene, ethylene and ethyl alcohol and other chemical products from natural gas furnished by Panhandle Eastern.

At present price around 25½, the common stock, paying dividends at the rate of $1 annually, is priced to yield 3.9%. Current holders of the shares might retain their interest pending further improvement in the distilling industry and the growth potential in National's chemical operations.

Distillers Corp.-Seagrams, in preliminary figures for the nine months to April 30, shows net profit running moderately ahead of the like period of the previous fiscal year. Conservatively estimating, net profit for the 12 months ending this July 31, should be slightly higher than the $3.54 a share shown for fiscal 1955. On this outlook, dividends of 30 cents quarterly will be amply covered and, in all probability, another 50-cent extra will be distributed toward the close of the current calendar year. At current price of 34¼, the stock is selling within a point of its absolute low for the first half of 1956, and yields, including the expected yearend extra, approximately 5%.

Hiram Walker-Gooderham & Worts with distilleries in Canada, the United States and Scotland, is a producer of one of the most varied lines of distilled products of any company in the industry. Its sales and earnings records, while varying from year to year, have been outstanding in comparison with those of the distillers as a group, profit margins being the highest with net earnings over the last decade providing broad coverage for dividends, particularly in each of the last 17 years.

Other prominent companies in the liquor industry are commented on individually immediately following the table of statistical data appearing on page 537.

II. The Brewing Industry

The brewers of malt beverages continue to be plagued with high operating and promotional costs which are strongly reflected by the squeeze on profit margins. This, despite the fact that beer sales for the industry as a whole, measured by tax-paid withdrawals of just short of 85 million barrels last year represented a 2% gain over tax-paid withdrawals of 83.3 million barrels in 1954. Sales of draught beer in 1955, however, declined by about 1.1 million barrels to 18.8 million, but this drop was more than offset by increased sales of the more profitable canned and bottled beers and ales, total volume reaching 66.1 million barrels, compared with 63.9 million in the previous year.

This uptrend in sales of packaged goods has been fairly consistent since the first full year following repeal, total 1955 volume accounting for close to 76% of tax-paid withdrawals. Continuation of this uptrend should eventually improve the brewers' earnings, particularly those organizations that have set up plants in strategic areas, giving them broader national coverage. These moves, however, bode little good for the smaller regional brewers who find it increasingly difficult to match the promotional efforts of the larger companies. This is especially true at a time when labor costs and a burdensome Federal excise tax of $9 a barrel on production, plus other taxes averaging $3 a barrel, put a tax load totaling about $12 on every barrel of beer the brewers produce. Moreover, all the brewers, because of intense competition and the already high price of their products, find it difficult to improve profit margins by increasing prices to consumers. The long-range outlook appears a little more promising. It is estimated that beginning in 1958, the 18 to 59-year age group, which normally accounts for the greater portion of total beer consumption, will be materially increased as a result of the higher birth rate of the 1940-49 decade in which almost 32 million births were recorded, and that this growth will continue in each subsequent year with the biggest gains coming after 1960. Meanwhile, competition among the brewers is certain to be keen with varied results throughout the industry.

Anheuser-Busch, Inc., one of the most aggressive of the brewers in developing national markets, in reporting 1956 first-quarter operations, gives indications that both sales and earnings are in an uptrend. Last year, net sales of $201.7 million were down from the previous year's $215.9 million and net income fell to $1.67 from $2.65 a share. In the first quarter of 1956, however, beer sales increased to 1,254,250 barrels, up by 22,834 barrels from the 1955 first quarter, with earnings increasing sharply from $1.8 million for the first three months of last year to $2.4 million for the first quarter of 1956. This latter sum is equivalent to 50 cents a share, compared with 39 cents a share a year ago, indicating ample coverage for the current annual dividend rate of $1.20 a share. Several factors appear to be contributing to the better showing so far this year. Among these is a change in the company's selling organization which has reduced from eight to four the number of sales regions, more concentration on promoting sales for home-consumption and the introduction in limited areas of Busch Bavarian, a new popular-priced beer.

Pabst Brewing Co., in 1955, for the third consecutive year, showed net sales in a downtrend, falling from $174.7 million for 1952, to an eight-year low of $134.3 million, the decline being indicative of the intense competition in the premium-priced beer market. At the same time, net income, reflecting the pressure on profit margins of higher labor costs, sales promotion and other expenses, has

dwindled from the 1949 peak of $17.3 million to slightly more than $2 million for 1954, or from $4.25 to 50 cents a share. A slight 1955 improvement brought net income to $2,376,559 and increased per share earnings to 58 cents for that year. While continuing to promote greater sales of its "Blue Ribbon" and "Eastside" malt beverages, Pabst, which entered the soft-drink field some years back, with acquisition of Hoffman Beverage Co., extended operations during 1955 by introducing canned soft drinks in five states. It plans to extend the marketing area for these products, including new flavors, into five additional states as rapidly as possible. In view of reduced earnings, it is reasonable to regard continuation of dividends of 17½ cents quarterly with some uncertainty, although Pabst closed 1955 with strong finances. At that time it had cash in excess of $12 million and total current assets of $33.1 million was in contrast to total current liabilities of $10.2 million.

Ruppert (Jacob) as a result of its 1955 experience stands out as a clear-cut illustration of the difficulty of regional brewers to show a satisfactory rate of earnings under present conditions. Although net sales of $33.4 million fell $2.1 million under those of the previous year, increased costs reduced net income from 1954's $949,888, or $1.67 a share, to $601,212, equal to 99 cents a share. Results for the 1956 first quarter indicated a continuation of the downtrend. Some improvement should be recorded in the second and third quarters, normally the biggest season, although dividend coverage for the common stock is likely to be thin.

III. The Soft Drink Industry

This industry was comprehensively treated in our issue of May 12, under the caption "Leader and Runner-up in the Soft Drink Field." Anything pertaining to fundamentals of the business that might be presented herewith would be repetitious.

None of the soft-drink manufacturers stands out because of the possibility of dynamic growth. For the leaders, however, the sales trend should continue upward as bottle and cup-vending machines open up new sales outlets. Another favorable factor is the change in the public's buying habits and the increasing use of soft-drink products that are year-round compatible mixers with the products of the distillers, all of which are tending to diminish the cyclical nature of the soft-drink industry. The favorable outlook for such leading companies as Canada Dry, Coca-Cola and Pepsi-Cola warrants retention of their shares for income return and possible price appreciation over the long term.

Let's take a look at the more prominent:

Coca-Cola Co., which was featured in the May 12 issue of THE MAGAZINE, continues to gain from the more aggressive policies adopted last year under the guidance of William E. Robinson, who became president and chief executive officer a little more than a year ago. For the 1956 first quarter, gross profit of $31.4 million represented a gain of $5.2 million over the like 1955 period with net income being equal to $1.05 a share against 96 cents a year ago.

Pepsi-Cola Co., also featured in the May 12 article, continues to show a consistent uptrend in expanding its number of franchised bottlers, present plans providing for the construction of 34 additional bottling plants in the U. S., and 21 similar plants in other countries.

Canada Dry Ginger Ale, Inc. is one of the most diversified of the soft-drink manufacturers. Included in its output is a complete line of fountain syrups for use at fountains and in cup-vending machines in the United States, Canada and various European countries, the latter area growing in importance since the recent introduction there of American-made cup-vending machines, presaging a new and expanding

market for Canada Dry's fountain syrups. Its bottlers have plants in Mexico, Central and South America, Europe, Hawaii and Eastern Africa. These licensed bottlers are in addition to company-operated bottling plants, 21 of which are in the U. S., four in Canada, and two in Cuba. Most of these plants, located in major market centers, are dual operations, one being to serve their immediate market areas with finished products, and the other supplying syrups and extracts to licensed bottlers. These products represent one of the largest varieties of soft drinks of any manufacturer in the business.

Net sales for the six months to last March 31 amounting to $35.5 million ran ahead of the like period a year ago by approximately $2.8 million. Higher costs and increased advertising expenses tended to keep profit margins under those of a year ago. This is indicated by net income for the most recent half year of $1.9 million, the equivalent of of 47 cents a share for the common stock against net income of $2.4 million, or 58 cents a share for the six months ended March 31, 1955. However, this dip could be readily made up during the final half-year, the soft-drink industry's big season, and with further gain in sales of Canada Dry's expanded line of whiskies. Dividends at the increased rate of 25 cents quarterly should be amply covered.

Dr. Pepper Co., whose product is marketed under that name, is now sold in 44 states in this country, and in Thailand, the Philippines and Tangiers, through franchised bottlers and fountain distributors, has evidently been alert.

In addition to the introduction of larger bottles last year, primarily for home consumption, considerable effort has been devoted toward developing new and profitable outlets through the installation of pre-mix vending machines. Although Dr. Pepper discloses no sales figures, current volume for the 1956 first quarter were said to have been 10% higher than in the like period of 1955. Earnings for the balance of the year should reflect benefits from the company's vigorous expansion and promotional programs. The annual dividend of 60 cents, payable 15 cents quarterly, should be amply covered. —END

Bank Stock Outlook At Mid-Year

(*Continued from page* 528)

generally, tend to top those of the first half because banks are inclined to set aside large reserves for taxes in the first half and little or nothing in the second half. What's more, many annual charges made by banks on certain services are paid in the latter part of the year.

Rates on consumer credit were increased by many commercial banks late last year. As old loans mature and new ones are put on the books, the overall yield on the consumer credit will increase.

These are some additional operating factors which will have an impact on the banking system in the second half. There are others, too. Some are underlying economic factors which will tend to continue the bank merger trend. Despite moves in Congress to stiffen laws governing bank mergers, it is doubtful the merger rate will slow down.

Reasons for Mergers

Here are some of the reasons why banks merge and will continue to merge:

Lack of management succession.

Desire on the part of stockholders to strengthen their investment.

Growing realization that regional banks—those with county-wide branch systems, for example—and bank holding companies often are more efficient and more profitable than small individual banks.

Inability of a bank to meet the needs of a growing community.

Competition which often leads one bank to merge because a competitor merged.

As may be deduced from the foregoing, the banks are enjoying a high level of earnings likely to persist through the second half. A study of the accompanying statistical table will reveal that yields on their shares range from a moderate 2.4% to a liberal 5%. Dividends are conservative and higher earnings will probably encourage more liberal disbursements later in the year.

Nearly all of these issues are of high-grade investment quality, representing splendid investment opportunities for those investors seeking assured income and moderate sustained growth over the long term.

Shares of the leading banking institutions merit a place in a well-rounded investment account. Investors who now hold these issues are warranted in retaining them and also in considering dollar-averaging. Those whose aims are in accord with the qualities above-mentioned will find full statistical information in our tables to assist them in making selections fitted to their personal objectives. —END

Varying Prospects For Sugar Companies

(*Continued from page* 538)

their sugar requirements that world prices are too high at 3.31 cents a pound under today's conditions. This demand for lower prices has caused great dissatisfaction among the member nations. But sober second thought would probably hold dissident sugar-exporting countries from giving up their memberships because of the danger that these importing countries would seek lower prices from non-member exporting nations anxious to work off surplus stocks.

According to a recent estimate made by the U. S. Department of Agriculture, world production of centrifugal sugar for 1955-56 is put at 42.9 million short tons. This is an increase of 1.6 million tons over the revised 1954-55 production of 41.3 million tons, reflecting rapid expansion in sugar production in Latin America, Africa, some of the Asiatic countries and in Western Europe. In the latter area, production is estimated at 7.6 million tons, or 500,000 tons greater than in the preceding year.

Rapidly Expanding World Production

Since World War II, the countries of Africa, Asia and Oceania, other than Red China and Manchuria and some of the older exporting countries such as Formosa, the Philippines and Indonesia, have rapidly expanded production. Their total output for 1955 is placed at approximately

10.8 million tons. In view of the rising standard of living which is bringing about an increase in sugar consumption in these territories, it is calculated that much of current output will go to supply home or preferential markets. In that case, however, the more abundant supplies mean that these countries will no longer make purchases of sugar in world free markets to satisfy home requirements.

On the other hand, it remains to be seen to what extent these countries increase production beyond immediate needs. The creation of relatively sizable surpluses could result in these stocks being offered to non-production nations at or under world prices, further upsetting efforts under the International Sugar Agreement to stabilize quotations.

Pre-dating the International Sugar Agreement is the Sugar Bill, passed by the U. S. Congress in 1948, and again amended last May, extending its life to December 31, 1960. Under this law, a quota system is devised to give domestic and foreign producers a fair share of the United States market and to maintain stability in the sugar trade. The accompanying table projects into 1960 the quotas for the domestic cane and beet-sugar producers — Puerto Rico, Hawaii, Virgin Islands and other sugar producing countries participating in the International Sugar Agreement. The figures are based on the formulae provided in the sugar bill with annual requirements based on 1955 consumption of 8.4 million tons, plus annual increases of 135,000 tons to and including 1960. A feature of the amended law is any increase above 8,350,000 tons for 1956, is to be apportioned 55% to the domestic areas and 45% to foreign countries other than the Philippines, that country's quota remaining unchanged. Of the 45% allotted to the foreign countries, excluding the Philippines, 96% would go to Cuba and 4% to the full-duty countries.

Quotas Under Sugar Act of 1948, As Amended in 1956

(Short tons, raw value)

	1956	1957	1958	1959	1960	Total 1957-60
Assumed requirements	8,535,000	8,670,000	8,805,000	8,940,000	9,075,000	35,490,000
Domestic Areas:						
Beet Area	1,852,401	1,884,975	1,910,308	1,940,523	1,970,739	7,706,545
Mainland Cane	549,349	580,025	587,820	597,118	606,415	2,371,378
Hawaii	1,052,000	1,052,000	1,066,138	1,083,001	1,099,865	4,301,004
Puerto Rico	1,080,000	1,091,000	1,114,783	1,132,416	1,150,049	4,488,248
Virgin Islands	12,000	12,000	15,201	15,442	15,682	58,325
Total domestic areas	4,545,750	4,620,000	4,694,250	4,768,500	4,842,750	18,925,500
Foreign Areas:						
Philippines	980,000	980,000	980,000	980,000	980,000	3,920,000
Cuba	2,888,880	2,903,648	2,943,594	2,983,541	3,023,488	11,854,271
Full-duty countries	120,370	166,352	187,156	207,959	228,762	790,229
Peru	56,224	63,919	69,765	75,610	81,455	290,749
Mexico	12,394	27,579	34,464	41,349	48,234	151,626
Dominican Republic	29,892	45,320	52,002	58,685	65,367	221,374
Nicaragua	8,472	9,837	10,613	11,387	12,162	43,999
Haiti	2,892	5,489	5,771	6,053	6,335	23,648
Costa Rica	1,084*	3,188	3,267	3,347	3,426	13,228
Formosa	1,114*	3,190	3,270	3,350	3,431	13,241
Netherlands	1,123*	3,223	3,317	3,411	3,504	13,455
Panama	1,114*	3,190	3,270	3,350	3,341	13,241
Belgium	182*	182	182	182	182	728
British Guiana	85*	85	85	85	85	340
Canada	631*	631	631	631	631	2,524
Hong Kong	3*	3	3	3	3	12
United Kingdom	516*	516	516	516	516	2,064
El Salvador	4,478§	—	—	—	—	—

* Average 1953-54 charges shown for countries which do not have specific prorations in 1956.

§ No charges against quotas since 1949.

Compiled by Samuel Schoenfeld, Statistician, Lamborn & Co.

Possibilities of Sugar in Chemicals

A bright spot in the sugar situation is the increasing evidence that world consumption of the product is moving upward, reflecting in part improved economies of various countries and the greater knowledge of the value of sugar in the human diet. Adding to the potentials for further growth of the sugar industry are the use of sugar in the chemical field. Dr. Henry Hass, president of the Sugar Research Foundation, upon completion of his European visit, reported enthusiasm on the part of sugarmen in England, Holland and other countries for continued research into the uses for sugar and its by-products. Two research projects overseas involve making detergents from sugar and use of ammoniated beet pulp as supplemental feed for livestock.

In Latin America, the United States and other lands, bagasse is being used in greater quantities for the manufacture of magazine and other types of paper.

Hawaiian and Puerto Rican operators have been plagued by labor problems in the past year. The Hawaiian sugar industry only last April settled labor contract negotiations with the International Longshore and Warehousemen's Union, but only after prolonged talks that began early last December. Less favorable conditions have existed in Puerto Rico. There, the majority of sugar mills having difficulty keeping grinding operations going because of the scarcity of field workers at harvest time.

The Domestic Refiners

American Crystal Sugar Co., ended its 1955-56 year last March 31, with sales and earnings showing gains over the preceding fiscal year, net income, after dividends on the prior preferred, being equal to $3.45 a share, as compared with $2.62 a share for the 12 months ended March 31, 1955.

Last year, American Crystal's quota under the Sugar Act amounted to a little more than 4.8 million cwt., all of which was marketed, and represented an increase of 7.28% over 1954. The tentative allotment of the company for the calendar year 1956 is put at 5 million cwt., an increase of 3.34% over 1955. With favorable weather for sugar beet production and stable price for the refined product, the outlook is for a further gain in earnings for the common stock in 1956.

Great Western Sugar Co., the largest of the domestic beet sugar refiners, despite unfavorable conditions in some growing areas that closed down two of its Colorado plants, finished the year which ended last February 29, with an output of more than 7.3 million cwt., as compared with 7.1 million cwt. in the previous year. Although refined products sales and other income totaling $74.9 million increased from $74.5 million for fiscal 1955, cost of sales, marketing and other expenses increased by approximately $1 million. Consequently, net income of $3.9 million was reduced by about $285,000, resulting net income for the common stock equal to $1.62 a share as against $1.78 in the previous year. Because of unfavorable climatic conditions the past two years, Great Western's sugar marketing allotment for 1956 is held to 7.15 million cwt., but with more favorable conditions for sugar beet cultivation, the harvest should be more plentiful and permit the company to operate all of its plants with greater economy which should be favorably reflected in 1956-57 net income.

Holly Sugar Corp., which ranks as the second largest domestic beet sugar producer, also experienced a drop in production in its fiscal year ended last March 31, output amounting to approximately 5.57 million cwt., an 8% decline from the previous year. Consequently, net income of $2.47 a share on 640,856 outstanding shares compares with $3.10 earned on 629,185 shares outstanding at the close of the previous year. With an allotment for the current year of 5.6 million cwt., which is 441,000 cwt., above 1955 and indications of firm refined prices in its marketing areas, some improvement in net income can be looked for in the current year.

American Sugar Refining Co., is the leading domestic cane sugar refiner, a portion of its raw sugar requirements being supplied by its wholly-owned Cuban sugar cane producing subsidiary. Last year, through its domestic operations, deliveries of refined sugar amounted to the equivalent of 36,823,505 cwt. This was the largest volume in its history, being almost 7% above 1954. The increase, however, was due in part to work stoppages experienced by several competitive refiners. Net sales and miscellaneous revenues for 1955 were at an all-time peak of $325.8 million, being $17 million greater than in 1954, producing net income, after preferred dividends, equal to $11.59 a share of common stock, as against $10.02 in 1954. While the absence of "windfall" business—that done in 1955 when competitive plants were down—is expected to reduce volume this year, the outlook for increased consumption of American Sugar's diversified sugar output should result in earnings for 1956 above those reported for 1954. Another moderate increase in the regular dividend or a more liberal extra could be paid.

National Sugar Refining Co., second largest of the domestic cane sugar refiners, on increased sales, showed a decline in per share earnings to $3.25 from $3.96 for 1954. With improved profit margin and non-recurrence of outside labor trouble that hampered operations at the Philadelphia refinery for seven weeks in 1955, outlook is for higher earnings in 1956, probably reaching $3.60 a share, at least. Company has expanded refining operations by the purchase of the Godchaux plant at Reserve, La., that has an annual capacity of 300,000 tons. To help finance this purchase National recently arranged a 7-year $5 million bank loan. END

Economic Warfare in the Middle East

(*Continued from page* 525)

in office. On the other side, Israel is unwilling to make any territorial concessions for fear they would only be the beginning of a total dismemberment of the tiny state. At the moment, any sort of permanent solution of the problem seems very far removed. If and when it comes it will bring new wealth to both the Arabs and Israel for the two economies could complement each other in many important ways. Israel could import and process much of the raw material of her Arab neighbors and export industrial products throughout the region. As it is, the stalemate costs both sides heavily not only in armament but also in senseless dislocation of trade and transportation.

Next we come to the British position in the Middle East. It can be characterized with one word—deteriorating. At one time, not very long ago, British advisers counseled Arab rulers, British officers administered Arab police and armed forces, and British naval bases abounded throughout the area. Now, Britain is holding on by the skin of her teeth to the few remnants of her former empire. The tragic thing is that as Britain's power wanes the area becomes more important to her. The reason is mainly oil. Until the end of World War II Britain's energy

(*Please turn to page* 566)

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We recommended General Dynamics at 43. This stock was then split 2-for-1 marking down our cost to $21\frac{1}{2}$. On July 10th it closed at $64\frac{5}{8}$ — representing 200% profit. The $2.20 dividend yields 10.2% on our cost price.

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Economic Warfare in the Middle East

(*Continued from page* 525)

and a good part of her export earnings were derived from domestic coal. Now her partly exhausted coal mines have fallen far behind her energy needs and the gap, more than in any other country, can only be closed by Middle East oil imports. Yet, Britain's position in the Middle East is today the most vulnerable of all the big powers. All the hate of colonialism and of eras and attitudes long passed seems to have found outlet in anti-British sentiment throughout the Middle East. At the same time, Britain is in the difficult position of having to fulfill certain contractual protective obligations towards several of the independent sheikdoms. This brings her continuously into fresh conflict with the independent nations of the region which have designs on these sheikdoms and resent Britain's carrying out of her obligation as 'colonial imperialism'. The most important of these conflicts is between Saudi Arabia and the Sheiks of Abu Dhabi and the Musact and Oman. Saudi Arabia has territorial claims against these sheikdoms which she attempted to settle at first by bribing local tribal leaders into switching allegiance and later by physically taking over the disputed area. In both cases the British, in fulfillment of their obligations, rebuked the Saudis. The result has been a steady deterioration in relations between the two countries.

Finally we come to the problem of Communism in the Middle East crisis, or rather the Communist's Bloc's activities, for popular communism is today not a significant force in the Middle East with the possible exception of Syria. The Communist Bloc is mixed up in all the troubles of the area and in each case has successfully managed to make it worse. Take the Arab-Israel conflict. It has been smoldering for eight years. But until the large-scale Soviet arms sale to Egypt it had never erupted with full violence. Or take Britain's territorial disputes. In every one of them the Soviet Union lent her official support to the party opposed to Britain. Yemen which has hardly had time to find out what the 20th century looks like has been all but smothered by the bear's hug with trade, aid and military assistance offers and a flying visit of the crown prince to Moscow. Iran has been encouraged to press her claim for Bahrein and Saudi Arabia has been offered arms to assist her in her conflict with the British-protected sheikdoms. The oil industry has not been spared. Russia's new foreign minister Shepilov's first statement upon his recent arrival in Cairo was an attack on "western oil monopolies" as "sucking blood from underdeveloped countries".

Soviet Middle East trade has grown very sharply as a result of a whole swarm of economic missions going to nearly every country in the area. Middle East exports to the Soviet Bloc increased from $83 million in 1953 to $125 million (11 per cent of all exports) in 1954. Full figures for 1955 are not yet available but they will certainly show a much steeper increase.

A typical example of Soviet economic infiltration of the Middle East was the recent mission of TECHNO-EXPORT, the Soviet state monopoly for foreign technical aid, to the Middle East. In numerous interviews and speeches the mission's chairman expounded his basic theme that "the Soviet Union wishes to give technical help to the countries of the Near East but does not under any circumstances wish to either participate in the ownership or share in the exploitation of the projects which it will be asked to build". This emphasis on 'aid without strings' fell on receptive ears throughout the area, especially since it was stated that payment for the aid could be made in any currency on low long-term credit or even in form of barter in almost any product. Obviously, the Soviet Union's motive is of a political rather than economic nature. If she can gain the friendship of a strategic country like Lebanon by dramatically promising to buy her entire agricultural surplus, Russia will do so regardless of whether she needs the relatively small quantity of goods involved. She is also willing to spend considerable amounts on technical aid if it gives her a chance to station Soviet propaganda - technicians throughout the Middle East. At the moment the Soviet Union's aims are to thwart Western plans to consolidate the area's opposing forces and to support all elements hostile to the Western-sponsored Baghdad Pact. Her ultimate aim is to remove all Western political and economic influence from the region. —END

Where Defense Money Will Be Spent

(*Continued from page* 517)

out the legislative program and appropriation."

There is obviously no intention on the part of Pentagon "brass" to build our plane strength wholly within the Air Corps. This should be interesting to industries concerned with production for the Army, Navy and Marine Corps. It hints wider dispersal of the business. For example, Mr. Wilson has warned against the fallacy of comparing this country and Russia in terms of the Red air strength and America's Air Corps. That, he cautioned, doesn't take into consideration the Navy's planes – a strong and growing force whose numbers will be increased under the new appropriation bill.

The Army's costs of operations largely are payroll and subsistence. Except for maintenance and supplies, there is very little procurement. And in any event the amount budgeted for its purposes is approximately the same as for the fiscal year just concluded.

The Air Force is the opposite of the Army. Its payroll, supplies, subsistence and reserve maintenance don't catch up to its spending for aircraft and the related machinery of the job.

Navy Share Unchanged

Overlooked sometimes in surface analyses of defense budgets is the Navy. Last year (the figures will be about the same for the current year), the Navy spent about $4 billion for payrolls including the Marine Corps, but it spent almost $2.5 billion for aircraft and related procurement. It built or converted ships to the cost of more than $1 billion and proposes to carry on at about the same pace in the current fiscal year. —END

Key to the Outlook For the Last Half of 1956

(*Continued from page* 514)

This rising repayment rate, taken in connection with a relatively stable income rate, is one element of concern in the consumption picture. Another element of concern is that the rate of *new* borrowing has not been reduced greatly in 1956, even though the volume of sales of consumer durables has declined sharply. It can be inferred from these trends that in 1956 *cash* buying of durables has subsided very sharply, both in the markets for automobiles and household goods.

In automobiles, this is of course understandable; cash buyers of automobiles are in relatively high income brackets, and they tend to buy their cars in the year when a substantial model change occurs. It is altogether probable that when the 1957 models are unveiled in showrooms late in the year the volume of cash sales will rise very encouragingly.

But in the household goods markets — in appliances, radio-TV, furniture — the relatively slack cash market of 1956 poses some ominous questions. Is the cash market saturated? Is the present more moderate level of home-building cutting into demands for household furnishings and equipment?

The trend of the cash market would not be quite so disturbing if one might expect a sudden resurgence of the credit-sales market over the next six months. But unfortunately here too the evidence is equivocal and cautionary. In 1954, a relatively "bad" automobile year, the total volume of debt outstanding, and repayment obligations against that debt, were stationary for over 12 months. Following this stability, which was owing to a sharp drop in the rate of extensions, the credit market soared into its 1955 boom, carrying autos and appliances with it. But in 1956, no such lengthy period of absorption has occurred, mainly because consumers have continued to borrow very heavily. When the 1957 automobile models are introduced, accordingly, the level of personal debt will still be several billion higher than it was when the 1956 models were introduced.

All of this suggests that the 1957 market for automobiles and household goods may bloom under the stimulation of new models in late 1956, but that the bloom may be relatively short-lived because of saturation in the cash market for household goods and an over-bought condition in the credit market for both autos and household goods.

The possibility that a consumer boom emerging in the second half may have only a very limited duration is now a primary reason for caution about the business outlook at mid-year. If such a short short boom materializes, and then fades, it is quite possible that at yearend some of the strength in business conditions will have been noticeably dissipated. This will be particularly true if an excessive, speculative "boomlet" in business psychology emerges as an aftermath of the 1956 steel strike, as it did after the 1952 strike. If it does, aggregate business at yearend may be perched on a high ledge of capital-goods demand, a high ledge of inventory demand, and a high (and perhaps already sinking) level of demand for consumer-durables. The possibility suggests that the end of 1956 may set the stage for the next encounter with the business cycle. For that reason, both investors and businessmen would be well advised to review commitments or decisions affecting that period. —END

Recipe for Appliance Makers

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joined in now) had a sharp impact on profit margins.

Thus, the ability of TV manufacturers to unload a record 7.5 million sets on the public last year was impressive. But for the manufacturers the profit margin was small and sometimes non-existent. Sales of TV receivers are down this year and there is no relief from the profit squeeze.

Servel, Inc., despite a lift from defense work, is a chronic writer in red ink in its refrigerator and room-cooler lines. Inventories, at times, have been onerous and sales have skidded. The company forecast: Futher deficits.

Even companies which are giants in their own field have found the profits lean or lacking in the appliance industry. International Harvester moved into the field with refrigerators, but did not tarry long. General Mills, world's largest flour miller, in casting about for a business that would lift its lean profit margin, went into ironers. General Mills got out none too soon. Factory sales of ironers this year are running 36% below the 1955 level.

To get by in a business that is dominated by such giants as General Motors (Frigidaire), General Electric, Westinghouse, RCA and Philco, it takes more than money siphoned off from the traditional business in which a corporation has attained leadership. It takes a rounded line of appliances, a substantial advertising budget that can be spread over the varied products, a far-flung dealer setup and large-scale consumer credit financing of the products.

It also calls for strategically situated and modern manufacturing facilities (the more automation the better) and aggressive management with lots of know-how in this consumer-durable field. It takes much more, of course, but the foregoing is basic.

When Borg-Warner sought to get away from primary dependence on the automotive manufacturers (trimmed to less than 40% of its over-all volume from the 60% that prevailed in 1950), it moved steadily toward the necessaries. To attain a well-rounded line it came up with refrigerators, air-conditioners, ranges (gas and electric), washing machines, oil burners, furnaces and other items. Over this vast line of products it advertised the name of Norge. An extensive dealer organization was built. Consumer financing for the purchase of these varied products was made available in 18 states through the services of B-W Acceptance Corp. Expansion of B-W Acceptance and a continuous stream of promotional activities were largely responsible for adding 6,500 stores in 1955 to the roster of Norge retail outlets.

Add to this the top-drawer engineering and research which have made Borg-Warner a standout in the highly competitive automotive industry and the plowback of earnings into modernization of plant. The sum total is a company whose home-appliance

sales last year approximated $129 million, highest in its history and more than 73% ahead of 1954. The York acquisition this year should make of Borg-Warner one of the top-rank appliance manufacturers, with representation in just about every "big ticket" item, TV excepted.

The Maytag Co. got by for years through its pre-eminence in the washing-machine field. To overcome the handicap of a limited line, Maytag has moved on to refrigeration. It previously had added ranges and ironers. This is still a long way from the rounded line, but it represents a move in the right competitive direction.

Maytag was not oblivious to the decline of such companies as Easy Washing Machine and Thor Corp., which have ceased to be factors in an industry that does close to a billion dollars annually.

The pace in appliances is so killing as to be reminiscent of the automotive industry, where about 2,000 makes have come and gone. There is no present prospect, of course, that the appliance industry will be whittled down to a big three, a la automobiles. Still, the appliance field is an industry that requires tremendous capital investment for plant and promotion. Research also is an imposing factor in this business, where new models, as in automobiles, are brought out yearly.

RCA, as an illustration, is spending tens of millions of dollars just to develop a mass market for color TV. Merely to double the hours of color programming entailed an outlay of $12 million. And last year alone, RCA invested over $31 million in new plants and equipment. Probably the best measure of the constant change that prevails in the appliance industry is the statement by RCA that 80% of its sales last year were in products and services which did not exist, or not commercially developed, 10 years ago.

Where the research, development and engineering is to come from in struggling companies with limited lines is a question that defies answer. The advent of such gadgets as the transistor and the printed circuit has made perilous the position of small companies lacking in technical know-how and financial resources.

To the credit of RCA, it moved with the times. Indeed, "Radio" hardly describes its manifold activities in the appliance line. The company turns out more TV sets than any competitor, has these same dealers selling its room-coolers, has a stake in the cooking-range field through acquisition of Estate Stoves from Noma and has a tie-up with Whirlpool (laundry equipment) and Seeger (refrigeration). It leads the field in phonographs and records.

General Electric turns out some 200,000 items, not a few of these appliances. This kingpin of the field boasts: "Progress is our most important product." And GE is in the midst of an unprecedented expansion program, with emphasis on appliances. This year the company will spend on the order of $180 million for new plants and equipment. Over the next three years, $500 million more will go for this purpose. GE, which does a business of close to $4 billion per year, expects that 35% of the total will derive from consumer products.

In no company has there been more stress on *new* organization, *new* products and *new* facilities. As a result of planning begun at the close of World War II, the GE structure has been changed from a highly centralized organization to as broad a degree of decentralization as can be found anywhere. Engineering, manufacturing, marketing, finance and employe and community relations are the responsibility of nearly a hundred product departments. Each department has full operating authority in the field and thus is able to make the kind of quick, informed decisions aimed at coping with competition amid fast-changing conditions.

Companies such as RCA, GE, Frigidaire, Westinghouse, Philco and Borg-Warner are so firmly entrenched today that it is a question whether even a broadened line of products by one of the smaller companies could crack the roster of kingpins. Unlike automobile dealers, the people who retail appliances rarely feature the products of a single manufacturer. A dealer may consider handling the line of one maker exclusively, but he will insist on the sole franchise for the local market. Few manufacturers of note will do business on that basis.

The merchant can afford to be pretty independent, for with scores of manufacturers there usually aren't enough stores in a trading area to give all the makers representation. The ensuing struggle for representation has bred the kind of price deals and giveaways that have made the business so fiercely competitive. Paying retail list price for an electric frying pan, refrigerator or TV set is unthinkable nowadays. The off-brand manufacturer must resort to price-cutting to get his wares into the stores and the nationally-known products are not remaining aloof.

The little fellow, generally, has to meet the wage scale set by the giant. He also has to pay the same rising costs for such materials as steel and transportation. For a long time now he has been "eating" higher costs, but the epidemic of indigestion is spreading.

While all signs point to the emergence within the next few years of a handful of appliance manufacturers (10 large TV producers already dominate that field), some few companies may manage to avoid the process of attrition without mergers and combinations. Such companies as Motorola, Magnavox and Zenith in the radio-TV-phonograph field have managed to fare well without the full line.

The decline and demise of marginal companies, however, should augur a better day for the surviving entities. For in the years ahead, gadget-loving Americans, whose tribe increases on the order of 4 million a year, will take down in ever larger numbers the TV and radio sets, refrigerators and freezers, washers, and dryers, garbage-disposers and automatic dishwashers—and untold quantities of gimmicks and devices that now are only a gleam in the laboratory technician's eye. END

Answers to Inquiries

(*Continued from page* 548)

The increase to $67,174,398 from $53,152,509 represents a gain of 26% for the fiscal year.

Profits for the quarter ended May 31st, 1956 after taxes were $1,221,320, equal to 84¢ per share of common stock after provision for preferred dividends. For the same period a year ago, profits after taxes were $1,065,972 or $155,348 less than in 1956, and equal to 79¢ per common share. Total unit sales of all products were above a year ago with unit sales of fluid milk, milk by-products and non-dairy food items continuing to show largest rises.

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